WINTER 1966

MONTANA BUSINESS QUARTERLY

BUREAU OF BUSINESS AND ECONOMIC RESEARCH
SCHOOL OF BUSINESS ADMINISTRATION
UNIVERSITY OF MONTANA, MISSOULA

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WINTER 1966
VOLUME 4
NUMBER 1

Published quarterly by the

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James L. Athearn, Dean
Norman E. Taylor, Director
Maxine C. Johnson, Assistant Director

Subscriptions, $4.00 per year; single copy price, $1.00.

Entered as second-class matter March 3, 1949, at the Post Office at Missoula, Montana, under the Act of August 24, 1912.

In This Issue

About the Authors

This issue of the *Montana Business Quarterly* features two articles on the economic outlook for Montana. In the first, Dr. James L. Athearn discusses economic forecasting and the long-range outlook for Montana to 1975; in the second, Mrs. Maxine C. Johnson looks at prospects for 1966.

Dr. Athearn, Dean of the School of Business Administration at the University of Montana, is a native Montanan, born and raised in Hill County. He attended Havre High School, Northern Montana College, and the University of Montana, where he received a B.A. degree in business administration and an M.A. degree in economics. His Ph.D., also in economics, is from The Ohio State University. Prior to his return to Montana, Dean Athearn was professor of insurance at the University of Florida. He holds both the designations of Chartered Life Underwriter (CLU) and Chartered Property and Casualty Underwriter (CPCU).

Dr. Athearn is co-author of a textbook, *Questions and Answers on Insurance*, and the author of *Risk and Insurance* and *General Insurance Agency Management*. He is a frequent contributor to the *Journal of Risk and Insurance*, for which he serves as assistant editor, and has written articles for many other professional journals.

Mrs. Johnson, a frequent contributor to the *Quarterly*, is assistant director of the Bureau of Business and Economic Research. She has a B.A. in economics from Washington State University and an M.A. in economics from the University of Montana. She has been associated with the Bureau of Business and Economic Research since 1950.

The two papers on land-use planning, by Dr. Wilson F. Clark and Dr. Norman E. Taylor, are adapted from talks given before the annual conference of the Montana Conservation Council. Dr. Clark is chairman of the Division of Science and Mathematics at Eastern Montana College in Billings. He has a B.A. degree in chemistry and mathematics from Middlebury College in Vermont and a Ph.D. degree in conservation education from Cornell University.

Dr. Clark's experience includes work as an industrial research chemist on the Manhatten project at Oak Ridge, Tennessee; work with the New York State Conservation Department; and five years as extension conservationist at Cornell University. He came to Eastern Montana College in 1954.

As a result of his continuing interest in conservation, Professor Clark has served as director and president of the Montana Conservation Council and as a member of the education committees of the Montana Association of Conservation Districts, the Soil Conservation Society, and the National Association of Conservation Districts. At the present time he is a member of the Board of Governors of the Pinchot Institute for Conservation Studies and president of the Conservation Education Association. He is the author of a physical science textbook for elementary teachers, several bulletins and pamphlets, and of articles in various professional journals.

Dr. Norman E. Taylor is director of the Bureau of Business and Economic Research, and has written a number of articles for the *Quarterly*. He received both his B. A. and M. B. A. degrees from the University of California at Berkeley and his Ph.D. in business administration from the University of Minnesota. Professor Taylor has taught at Utah State University, the University of Minnesota, and the University of Oregon. At Oregon he was assistant director of that University's Bureau of Business and Economic Research and he also founded and directed the Forest Industries Management Center.

Dr. Lawrence J. Hunt, author of the article on business ethics, is assistant professor of business administration at the University of Montana, with an extensive background in both teaching and business. He received his M.S. degree in retailing from New York University and his M.B.A. from the University of Oregon. In addition to the University of Montana, he has taught at The Ohio State University and the University of Oregon. Professor Hunt's business experience includes work with R. H. Macy's in New York and San Francisco, and with Montgomery Ward, the Sandura Company, the Mastic Tile Corporation of America, and the Ruberoid Company. An article on business simulation as a management technique, co-authored by Dr. Hunt, was published in the Fall 1965 issue of the *Quarterly*.

The article on the use of private lands for outdoor recreation is Dr. Lawrence C. Merriam, Jr.'s third appearance in the *Quarterly*. He has previously written about Montana's state parks and about planning for outdoor recreation in the state. Dr. Merriam is associate professor of forestry at the

University of Montana. He studied at the University of California at Berkeley and at Oregon State University where he received his Ph.D. degree in forest management. Professor Merriam has had wide experience in recreation planning, including service as Oregon state parks planner and as Oregon state park and highway forester. He is an advisor to the State Outdoor Recreation Advisory and Planning Committee and is a member of the Board of Trustees of the National Parks Association, Washington, D. C.

Also in this issue, Dr. John H. Wicks, assistant professor of economics at the University of Montana, continues his series of informative articles on state and local taxation. Professor Wicks received his B.A. degree from the University of North Dakota and his M.A. and Ph.D. degrees from the University of Illinois. He taught at Augustana College, Western State College of Colorado, and The Ohio State University before coming to the University of Montana in 1964. He is co-author of a textbook, *Cases in Public Finance,* published last year.

From the Director's Desk . . .

Last September, the 89th Congress passed Public Law 89-182, the State Technical Services Act, "to promote commerce and encourage economic growth by supporting state and interstate programs to place the findings of science usefully in the hands of American enterprise." The principal purpose of the act is to establish the means, in every state, to effectively distribute technical and engineering information to commercial and industrial establishments.

The federal government has spent billions of dollars on research and will spend more. Major scientific breakthroughs have occurred under this stimulation in many disciplines. However, much that has been discovered has gone unutilized, and much has been exploited by only a few firms, often to the economic disadvantage of smaller competitors.

Congress felt, therefore, that if the proper machinery for data distribution were developed in each state, more businessmen (particularly smaller firms and those less directly involved in defense and space technologies) would be in a position to capitalize on new product and service ideas and new manufacturing and management techniques, thus diminishing the advantages possessed by the largest firms, or by firms more favorably situated geographically and financially.

Governor Tim Babcock, in October, named the University of Montana as the "designated agency" for the State Technical Services Act with the responsibility of working cooperatively with other qualified institutions and of preparing realistic one-year and five-year plans for putting the program in operation. The Bureau of Business and Economic Research has taken on the assignment for the University of implementing the State Technical Services Act and very soon should receive a planning grant which will enable us to move ahead more rapidly. We shall be exploring opportunities for a clearinghouse and reference operation to disseminate technical reports, abstracts, tapes, microfilm, and reviews of major scientific papers. We shall also investigate how industrial workshops, seminars, training programs, extension courses, demonstrations, and field visits can be effective in encouraging the applications of science and technology in Montana enterprises.

Your suggestions are invited at any time on these or other Bureau activities. We shall be contacting the principal commercial and industrial organizations formally for advice and counsel as to the most productive and economic methods for taking advantage of this potentially important stimulus to Montana's continued growth and development.

Norman E. Taylor
Director

The Long-Run Economic Outlook for Montana

JAMES L. ATHEARN, Dean
School of Business Administration
University of Montana, Missoula

Economic Research and Forecasting

Economic forecasting is sometimes hazardous and is often unsatisfactory. To an economist who knows nothing about meteorology, it appears to be even more difficult than forecasting the weather. Economic activity and the weather, however, have at least one thing in common: both are influenced by a tremendous number of factors—known and unknown. Although it is not usually stated explicitly, the first step in the creation of a forecast is to construct or refer to a theory which provides the basis for an understanding of economic activity. Economic theory helps to explain the relationship of the various sectors of the economy to each other and the factors which may influence their behavior.

Once we have either created or familiarized ourselves with economic theory, the next step is research to find out where we are and where we have been. This involves measuring the level of current and past economic activity. Accurate data are sought concerning population, employment, income, industrial and other production, price levels, bank debits, and similar information. Various government agencies (both state and federal) accumulate economic data of one kind or another. Some data are obtained by actual count, such as those of the Census of Population. In other cases, estimates are made on the basis of sample surveys. Consumer price indexes, for example, are based on a sampling of markets in various parts of the nation. Since different agencies use different methods and different definitions, the data are not always comparable—either with each other or from one time period to another. As a result, even finding out what our present situation is may be fraught with difficulty; the data we use require very careful interpretation.

Economic forecasting involves certain assumptions concerning cause and effect relationships and the use of trends. Thus, if one assumes that an increase in tourist expenditures will increase the level of economic activity in a given area, he may conclude that an area is destined for growth because tourist travel has been increasing in that area. If there has been an increase of 5 percent each year during the past 10 years he may assume that such a trend will continue into the future and make estimates of the impact of increasing expenditures. He assumes that what has happened in the past will continue to happen in the future. This approach is simple but contains several possibilities for significant error. In the first place, the past may have been measured inaccurately. In other words, in the illustration just used, tourist travel during the past 10 years in a particular area may have been growing at the rate of 3 percent per year or 7 percent per year rather than 5 percent. Clearly, inaccurate measures of the past will lead to inaccurate forecasts of the future.

Another source of error in forecasting is the fact that assumptions concerning the future may be invalid. We may assume, for example, that factors underlying present trends will remain unchanged or change at the same rate as in the past. Because tourist travel in any given area is influenced by both internal and external factors, such an assumption may be hazardous. For example, a serious flood or a particularly bad forest fire season may reduce travel in the current year and for several subsequent years. The area may become less accessible and less attractive to tourists for some period of time. The effect of gasoline rationing on tourist travel in Montana during World War II illustrates vividly how external factors may affect the accuracy of forecasts. Moreover, tastes may change. People may develop a preference for winter vacations instead of taking them during the summer. Or, air travel to foreign lands may become more appealing than automobile travel in the United States.[1] Thus a forecast of the future based upon trends in the past may be accurate only if all the factors which influence it remain constant, or if changes which take place are of such a nature as to cancel each other out. In

[1]There is some evidence that preferences for fast and convenient air transportation may be exercising considerable influence on where people spend their vacations. Winter tourism is growing much more rapidly in Colorado than in Montana, at least partly because Colorado is more readily accessible by air.

view of the fact that the only thing constant about the modern world is its constant change, assumptions to the contrary are almost certain to be somewhat unrealistic. Because of the large number of factors involved and the tremendous possibilities for change, the probability that one change will be cancelled out by another in the opposite direction seems rather small.

The purpose of these introductory remarks is not to suggest economic reporting and economic forecasting are a complete waste of time, but to call attention to the fact that pronouncements in this area must be interpreted carefully. A professionally trained economist is as impressed with what he does not know as he is with what he does know, if not more so. He is acutely conscious of the limitations of his trade and not infrequently distressed by the recklessness of the amateurs. In spite of the fact that economic forecasting is as much art as science, however, and leaves much to be desired so far as accuracy is concerned, it provides the best basis available for planning economic activity. Used with an understanding and appreciation of their limitations, economic forecasts can be tremendously valuable. The alternative to the use of such forecasting is complete ignorance and reliance upon pure chance.

Montana Economy 1950-1960

The data in this section are based on the publication *National Growth and Economic Change in the Upper Midwest* by James M. Henderson and Anne O. Krueger which is a general report of the comprehensive research conducted by the Upper Midwest Economic study, a joint undertaking of the Upper Midwest Research and Development Council and the University of Minnesota, published by the University of Minnesota Press in 1965. This volume presents a detailed analysis of the economy of the Upper Midwest, which is the ninth federal reserve district and includes Montana, North Dakota, South Dakota, Minnesota, northwestern Wisconsin and Michigan's Upper Peninsula. The study analyzes the region's past economic growth, its current structure, and possible future development.

In this section several aspects of the Montana economy in the decade ending 1960 will be examined—namely, population, employment, and personal income levels. First, let us look at

Table 1

POPULATION BALANCE SHEET, 1950-1960

Area	1950 Population	Add: Births	Add: In-Migration	Subtract: Deaths	Subtract: Out-Migration	Net Change	1960 Population
Number of Persons							
Upper Midwest	5,730,909	1,553,305	1,892,941	563,263	2,325,635	557,348	6,288,257
Montana	591,024	171,094	266,499	62,145	291,705	83,743	674,767
Average Percentages of Population Per Year							
United States		2.48	3.45	0.95	3.31	1.70	
Upper Midwest		2.59	3.15	0.94	3.87	0.93	
Montana		2.71	4.22	0.98	4.62	1.33	

Source: Upper Midwest Economic Study and *Census of Population, 1950* and *1960*. (Henderson and Krueger, *National Growth and Economic Change in the Upper Midwest*, Table 1-4, page 13).

the population balance sheet for the period 1950 to 1960 as illustrated in Table 1. This shows components of population change in absolute numbers for the Upper Midwest and Montana and average percentage changes per year for the United States, the Upper Midwest, and Montana. Note that in the Upper Midwest outmigration during this period exceeded inmigration, but the number of births was large enough to result in a net increase in population. The same is true of Montana. When we look at the percentages of population per year for the United States, the Upper Midwest, and Montana, we see that the birth rate in Montana and the Upper Midwest was above that in the United States as a whole. In addition, both the inmigration rate and the outmigration rate for Montana were greater than that for the Upper Midwest and the United States. The rate of total population growth per year in Montana was greater than that of the Upper Midwest but less than that for the United States as a whole.

Table 2 indicates that, in some cases at least, population shifting was even greater than growth. For example, in the United States as a whole the growth rate per year from 1950 to 1960 averaged 1.7 percent; and while the growth rate for urban areas was 2.57 and rural nonfarm was 2.56, the rural farm population decreased at an average rate of 5.37 percent.[2] In the Upper Midwest the total growth rate was considerably smaller than that for the United States as a whole, but the decline in the rural farm population was less than half as rapid. Montana's population growth rate was less than that of

[2]By Census definition, an urban area is a place containing 2,500 or more persons. All other areas are called rural. Persons not living on farms, including those who live in towns with less than 2,500 population, are classified as rural nonfarm.

Table 2

COMPONENT POPULATION GROWTH RATES FROM 1950 TO 1960
(average percentages per year)

Area	Total	Urban	Rural Total	Rural Farm	Rural Nonfarm
United States	1.70	2.57	–0.09	–5.37	2.56
Upper Midwest	0.93	2.18	–0.31	–2.52	1.71
Montana	1.33	2.50	0.24	–2.49	1.84

Source: Upper Midwest Economic Study and *Census of Population, 1950* and *1960*. (Henderson and Krueger, Table 1-5, page 14.)

the United States but greater than that of the Upper Midwest, and its urban growth rate was almost equal to that of the United States as a whole. The decline in the rural farm population in Montana was at about the same rate as the Upper Midwest, but the growth in the rural nonfarm population was at a somewhat higher rate.

As Table 3 shows, the Upper Midwest and Montana were greatly affected by migration between 1950 and 1960. Outmigration exceeded inmigration in the Upper Midwest during this decade by 434,600 while Montana lost almost 25,000 more people than it gained during the same period. The decline in

Table 3

NET MIGRATION FROM 1950 TO 1960

(number of persons)

Area	Total	Urban	Rural Total	Rural Farm	Rural Nonfarm
Upper Midwest	–434,600	187,814	–622,414	–617,400	–5,014
Montana	–24,527	21,806	–46,333	–50,100	3,767

Source: Upper Midwest Economic Study and *Census of Population, 1950* and *1960*. (Henderson and Krueger, Table 1-6, page 15.)

the farm population of the Upper Midwest and Montana during this period is striking. The urban population of both the Upper Midwest and Montana gained through migration but the gain was considerably less than the loss in the rural farm areas.

Significant changes occurred in employment levels and distribution by major industry division in both the Upper Midwest and Montana between 1950 and 1960. As indicated in Table 4, total employment in both areas increased during this period. Significant declines occurred in agriculture, mining and oil, and railroads.[3] Both Montana and the Upper Midwest had sizable increases in the service industries, retail trade, finance, insurance and real estate, and in state and local government.

Table 5 illustrates the extent to which employment patterns in Montana are similar to, or different from, those in the Upper Midwest and the United States as a whole. Note that agricultural employment is far more important in Montana than it

[3]The mining and oil category, however, is somewhat misleading so far as Montana is concerned. Actually, oil and gas production employment increased by 473 in this state while mining employment declined by 3,957.

Table 4

EMPLOYMENT CHANGES BY MAJOR INDUSTRY DIVISION FROM 1950 TO 1960

(numbers employed)

Division	Upper Midwest	Montana
Total	15,390	5,678
Agriculture	–177,384	–14,550
Mining and oil	–3,669	–3,484
Manufacturing	23,524	1,887
Railroads	–25,814	–4,900
Transportation, communications, and utilities (except railroads)	10,402	1,618
Wholesale trade	12,471	1,673
Retail trade	15,140	2,407
Finance, insurance, and real estate	20,584	3,149
Service and miscellaneous	58,882	6,469
Construction	14,455	1,109
Federal government	14,566	1,400
State and local government	52,233	8,900

Source: Upper Midwest Economic Study and state employment security agencies. (Henderson and Krueger, Table 1-3, page 12.)

Table 5

PERCENT DISTRIBUTION OF EMPLOYMENT BY MAJOR INDUSTRY DIVISION IN 1960

Division	United States	Upper Midwest	Montana
Agriculture	6.5	18.5	16.8
Mining and oil	1.2	1.8	3.3
Manufacturing	26.4	15.1	9.4
Railroads	1.4	2.3	3.9
Transportation, communications, and utilities (except railroads)	5.1	4.6	4.6
Wholesale trade	5.1	5.1	4.1
Retail trade	16.3	16.6	17.7
Finance, insurance, and real estate	4.5	3.6	3.6
Service and miscellaneous	14.9	13.3	13.9
Construction	5.7	5.7	6.3
Federal government	3.4	2.8	4.1
State and local government	9.5	10.6	12.3
Total	100.0	100.0	100.0

Source: Upper Midwest Economic Study and state employment security agencies. (Henderson and Krueger, Table 1-2, page 12.)

is in the United States as a whole, but somewhat less significant than it is in the Upper Midwest. Manufacturing, on the other hand, is far less significant in Montana than in either the Upper Midwest or the United States. Retail trade is somewhat more important in Montana than in either the Upper Midwest or the United States, but the three areas are quite similar in this as well as the service category. Federal, state, and local government employment is considerably more significant in Montana than in either the Upper Midwest or the United States as a whole. As Table 5 indicates, the greatest differences in employment patterns between Montana and the United States as a whole are in agriculture, manufacturing, and government.

Because of its overall significance to state employment, changes in agricultural employment by residence between 1950 and 1960 are shown in Table 6. In both Montana and the United States as a whole total agricultural employment de-

Table 6

AGRICULTURAL EMPLOYMENT BY RESIDENCE IN 1950 AND 1960

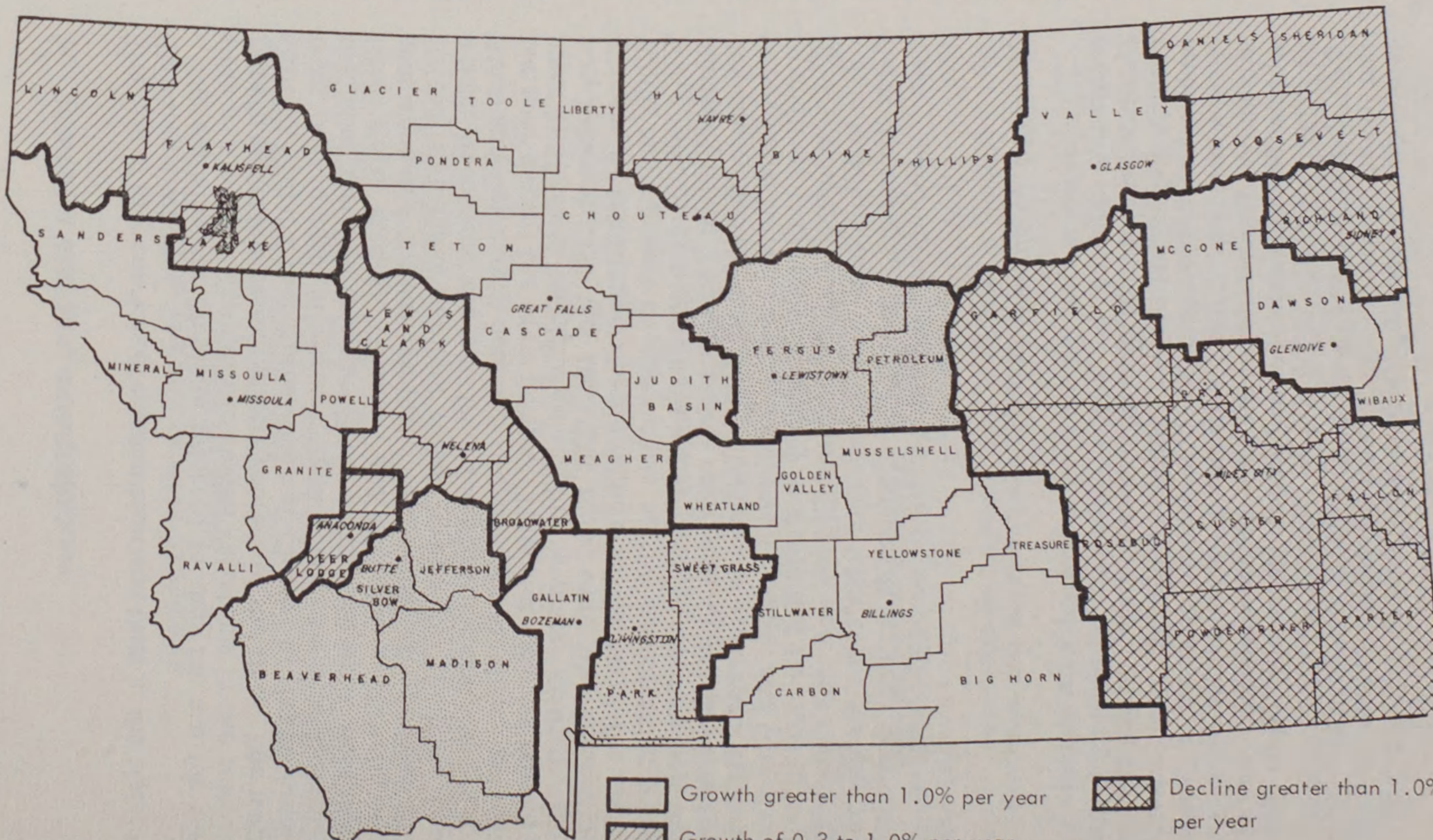
Area	Total	Urban	Rural Nonfarm	Rural Farm
	Persons Employed in 1950			
United States	6,884,790	440,850	901,741	5,662,812
Montana	54,105	2,042	6,299	42,610
	Persons Employed in 1960			
United States	4,256,734	492,792	950,050	2,813,892
Montana	39,479	2,536	8,143	28,800
	Average Percentage Changes Per Year from 1950 to 1960			
United States	–4.89	1.11	0.52	–6.99
Montana	–3.14	2.17	2.57	–3.92

Source: *Census of Population, 1950 and 1960.* (Henderson and Krueger, Table 1-7, page 15).

clined between 1950 and 1960 but the annual rate of decline was somewhat less in Montana than in the United States. The rate of movement off the farm, however, is more rapid than the movement out of agricultural employment. In both Montana and the United States urban as well as rural nonfarm agricultural employment increased between 1950 and 1960.

FIGURE 1

TOTAL LABOR FORCE RATES OF CHANGE BY TRADE AREAS FROM 1950 TO 1960



Growth greater than 1.0% per year

Growth of 0.3 to 1.0% per year

No major change (+0.3 to -0.3%

Decline greater than 1.0% per year

Decline of 0.3 to 1.0%

Source: Upper Midwest Economic Study. (Henderson and Krueger, *National Growth and Economic Change in*

The rate of increase was greater in Montana than in the United States as a whole.

The statistics for Montana referred to thus far are for the state as a whole. They fail to reveal variations in the rate of growth or decline among different areas of the state. The map entitled "Total Labor Force Rates of Change by Trade Areas from 1950 to 1960" illustrates these variations. For example, the labor force in trade areas served by Missoula, Bozeman, Great Falls, Billings, Glasgow, and Glendive grew at a rate greater than 1 percent per year. This equaled the rate for the United States and was four times the rate for the state as a whole. In contrast the total labor force in trade areas served by Butte and Lewistown declined at a rate greater than 1 percent per year during the same period.[4] Thus, not only did employment in Montana change considerably by major industry division between 1950 and 1960, but there were also significant changes in total employment in different parts of the state. While employment in some parts of the state was growing fairly rapidly, employment in other parts of the state was declining. On the average during each year of the decade, the labor force increased in Kalispell, Missoula, Anaconda, Helena, Great Falls, Havre, Bozeman, Billings, Glasgow, and Glendive. In contrast, it declined markedly in Butte and Lewistown and more gradually in Miles City and Sidney and was relatively stable in Livingston. This variation in labor force changes reflects the extent to which the economy of an area depended upon expanding or declining sectors of economic activity.

Montana Economy 1975

The discussion thus far has been concerned with changes in Montana's economy during the 1950's. The objective of this historical survey has been to determine trends in population growth, employment levels, types of employment, and income levels. These are significant measures of economic development which help to indicate where the economy is and where it is going. The balance of the tables and the last map provide a basis for discussion of projections made by the Upper Mid-

[4]The decrease in Butte is related to its dominance in metal mining—an industry which experienced a significant loss of employment during that decade. Lewistown was similarly affected by a particularly severe decline in agricultural employment.

Table 7

PERSONAL INCOME LEVELS IN 1960

(dollars per capita)

Area	Per Capita Incomes Total	Per Capita Incomes Farm	Per Capita Incomes Nonfarm	Deviations from National Total	Deviations from National Farm	Deviations from National Nonfarm
United States	2,223	969	2,390			
Upper Midwest	1,935	1,059	2,198	–288	90	–192
Montana	2,018	1,638	2,096	–205	669	–294

Source: Upper Midwest Economic Study and Department of Commerce, *Survey of Current Business*, August issues. (Henderson and Krueger, Table 1-8, page 16.)

Table 8

POPULATION LEVELS IN 1960 AND 1975

Area	Total	Urban	Rural
(Numbers of Persons in 1960)			
Upper Midwest	6,288,257	3,322,911	2,963,346
Montana	674,767	343,258	331,509
(Numbers of Persons in 1975)			
Upper Midwest	6,988,878	4,184,549	2,804,329
Montana	764,271	429,332	334,939
(Average Annual Percentage Changes from 1960 to 1975)			
Upper Midwest	0.70	1.54	–0.37
Montana	0.83	1.49	0.07

Source: Upper Midwest Economic Study and *Census of Population, 1960.* (Henderson and Krueger, Table 2-4, page 25.)

west Economic Study concerning the structure and growth of Montana and other Upper Midwest states from 1960 to 1975. These projections are based on the data for 1950-1960 discussed above, as well as national and state projections made by the National Planning Association. The future economic development of the region and the State of Montana cannot be predicted in isolation but must be related to what is expected to occur in the nation as a whole and the areas contiguous with Montana and the Upper Midwest.

The Montana population is expected to increase by about

TABLE 9

NET MIGRATION FOR THE PERIOD 1960-1975

Area	Total	Urban	Rural
Upper Midwest	−610,374	164,290	−774,664
Montana	−66,344	5,780	−72,124

Source: Upper Midwest Economic Study. (Henderson and Krueger, Table 2-5, page 26.)

TABLE 10

NET MIGRATION RATES FOR THE PERIODS 1950-60 AND 1960-75

(average percentages of population per year)

Area	Total	Urban	Rural
(1950-1960)			
Upper Midwest	−0.66	0.51	−2.06
Montana	−0.34	0.56	−1.41
(1960-1975)			
Upper Midwest	−0.61	0.29	−1.82
Montana	−0.58	0.10	−1.44

Source: Upper Midwest Economic Study. (Henderson and Krueger, Table 2-6, page 26.)

90,000 with a rate of increase per year slightly greater than that of the Upper Midwest as a whole. The bulk of the growth will be in urban areas. Urban population growth in Montana, however, will be at a slightly lower rate than that for the Upper Midwest as a whole and there will be some increase in the rural population. This small increase is in contrast with the Upper Midwest which will experience a decline in rural population. It is expected that the rural nonfarm population in Montana will increase more than the rural farm population decreases.

Net migration during the period 1960 to 1975 will be negative for both Montana and the Upper Midwest. In other words, Montana is expected to lose over 66,000 more people through outmigration than it gains through inmigration. The Upper Midwest as a whole is expected to lose over 600,000. Table 10 indicates that net migration losses between 1950 and 1960 were much smaller in Montana than in the Upper Midwest, but are expected to be about the same between 1960 and 1975. The effect of migration in urban areas is expected to be less in Montana than in the Upper Midwest. While Table 2 shows an urban population growth rate of 2½ percent per year between 1950 and 1960 for Montana, Table 8 shows an expected rate of about 1½ percent between 1960 and 1975. In other words the rate of growth of urban areas in Montana is expected to decline markedly during the next 10 years as compared with the decade of the fifties. The trend toward urbanization will continue, however, and over 56 percent of Montana's population will be

TABLE 11

EMPLOYMENT PROJECTIONS BY MAJOR INDUSTRY DIVISION FOR 1975

Division	Upper Midwest	Montana
Number of Jobs in 1975		
Total	2,477,708	267,152
Agriculture	278,800	30,800
Mining and oil	32,428	7,307
Manufacturing	397,720	24,603
Railroads	40,402	6,983
Transportation, communications, and utilities (except railroads)	120,984	13,256
Wholesale trade	126,002	11,211
Retail trade	425,038	46,786
Finance, insurance, and real estate	104,445	10,965
Service and miscellaneous	402,546	43,334
Construction	156,715	17,991
Federal government	75,544	12,165
State and local government	317,083	41,751
Changes in Numbers of Jobs from 1960 to 1975		
Total	294,977	32,810
Agriculture	−126,210	− 8,679
Mining and oil	− 7,732	− 355
Manufacturing	67,538	2,678
Railroads	− 10,334	− 2,117
Transportation, communication, and utilities (except railroads)	21,324	2,501
Wholesale trade	15,119	1,538
Retail trade	63,454	5,368
Finance, insurance, and real estate	26,648	2,604
Service and miscellaneous	112,092	10,654
Construction	32,654	3,302
Federal government	14,193	2,465
State and local government	86,513	12,851

Source: Upper Midwest Economic Study. (Henderson and Krueger, Table 2-1, page 22.)

living in urban areas by 1975, compared with less than 51 percent in 1960.

As indicated in Table 11, total employment in Montana is expected to increase by nearly 33,000 between 1960 and 1975 and exceed 267,000 jobs. The greatest increases are expected to occur in state and local government, services, and retail trade, while the greatest decreases are expected to be in agri-

TABLE 12

AVERAGE RATES OF EMPLOYMENT CHANGE OVER THE PERIODS 1950-1960 AND 1960-1975

(average percentages per year)

Division	United States	Upper Midwest	Montana
(1950-60)			
Total	1.09	0.07	0.25
Agriculture	—4.89	—3.63	—3.14
Mining and oil	—2.24	—0.87	—3.75
Manufacturing	0.93	0.74	0.90
Railroads	—4.51	—4.11	—4.31
Transportation, communication, and utilities (except railroads)	1.56	1.10	1.63
Wholesale trade	1.65	1.19	1.90
Retail trade	1.37	0.43	0.60
Finance, insurance, and real estate	3.06	3.07	4.73
Service and miscellaneous	2.88	2.27	2.21
Construction	1.72	1.24	1.56
Federal government	1.44	2.71	1.56
State and local government	4.17	2.57	3.68
(1960-75)			
Total	1.88	0.85	0.87
Agriculture	—1.41	—2.49	—1.66
Mining and oil	0.82	—1.43	—0.32
Manufacturing	1.53	1.24	0.77
Railroads	—2.44	—1.52	—1.77
Transportation, communications, and utilities (except railroads)	1.96	1.27	1.39
Wholesale trade	1.76	0.85	0.98
Retail trade	2.41	1.08	0.81
Finance, insurance, and real estate	2.50	1.96	1.81
Service and miscellaneous	3.19	2.18	1.88
Construction	2.88	1.56	1.35
Federal government	0.08	1.39	1.51
State and local government	2.13	2.12	2.45

Source: Upper Midwest Economic Study and state employment security agencies. (Henderson and Krueger, Table 2-2, page 24.)

culture and railroads. Rates of employment change from 1950 to 1960 and 1960 to 1975 for Montana, the Upper Midwest, and the United States are shown in Table 12. The rate of increase in employment in Montana was about one-fourth that of the United States in the 1950's but well over three times that of the Upper Midwest as a whole. Agricultural employment in Montana declined at a slower rate than in the Upper Midwest and the United States, but employment in mining declined much more rapidly. Railroad employment declined at about the same rate as that in the United States as a whole. Between now and 1975, total employment in Montana will grow at about the same rate as that of the Upper Midwest but at less than half the rate of the United States as a whole. Employment in agriculture, mining, and railroads is expected to continue its decline. While manufacturing employment in Montana is expected to increase, the rate will be less than that for the Upper Midwest as a whole and about half that of the United States. About the only areas of employment that are expected to increase more rapidly than that of the United States as a whole are federal, state, and local government.

Personal income in Montana increased from 1950 to 1960 and it is expected to grow more rapidly between 1960 and 1975. As Table 13 shows, the rate of increase between 1950 and 1960 was considerably less than that of the Upper Midwest, but is expected to be more nearly equal to the region as a whole between now and 1975. In 1950, per capita income in Montana was about equal to that in the United States as a whole and greater than that in the Upper Midwest. By 1960 the Upper

TABLE 13

PERSONAL INCOME FOR 1950, 1960, AND 1975

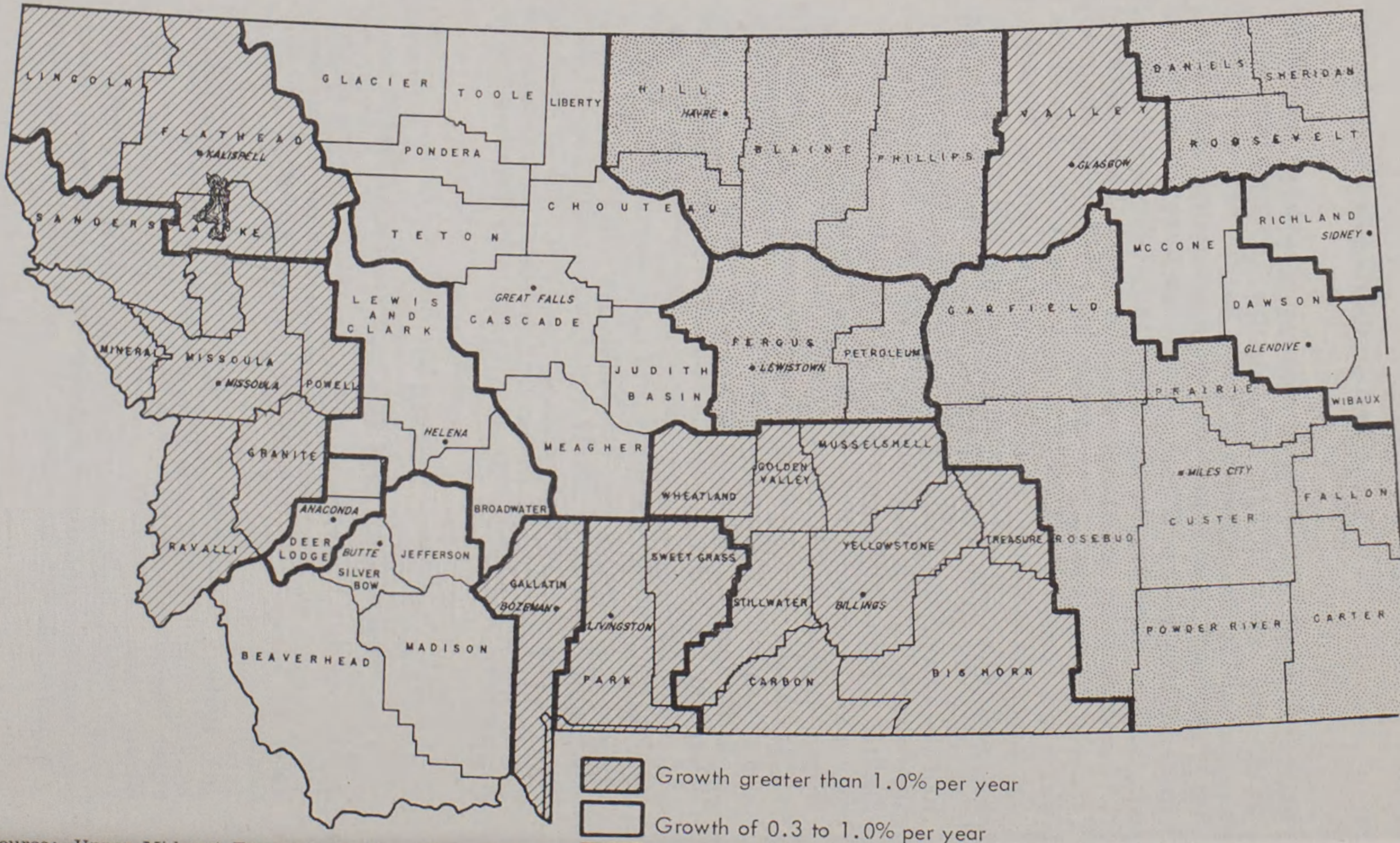
Area	1950	1960	1975	1950-1960	1960-1975
	Income Levels (millions of 1960 dollars)			Growth Rates (percentages per year)	
Upper Midwest	$9,463.5	$12,179.3	$20,336.9	2.52	3.42
Montana	1,177.4	1,368.0	2,237.9	1.50	3.28

Area	1950	1960	1975	1950-1960	1960-1975
	Income Levels (1960 dollars per capita)			Growth Rates (percentages per year)	
Upper Midwest	$1,651	$ 1,935	$ 2,910	1.60	2.70
Montana	1,992	2,018	2,927	0.17	2.45

Source: Upper Midwest Economic Study and Department of Commerce, *Survey of Current Business*, August issues. (Henderson and Krueger, Table 2-7, page 26.)

FIGURE 2

TOTAL LABOR FORCE RATES OF CHANGE BY TRADE AREAS FROM 1960 TO 1975



Source: Upper Midwest Economic Study. (Henderson

Midwest had caught up with Montana largely because of a slow rate of per capita income growth in Montana during the fifties. The rate of growth between now and 1975 is expected to be slightly less in Montana than in the Upper Midwest.

The last map entitled "Total Labor Force Rates of Change by Trade Areas from 1960 to 1975" shows that growth patterns are expected to show somewhat less variation in different parts of the state in the future than they did during the 1950's. No area is expected to decline, although the Havre, Lewistown, Miles City areas and the northeastern corner of the state are expected to remain stable. Great Falls, Glasgow, and Sidney are expected to have growth rates substantially below their 1950 to 1960 levels. The greatest areas of growth are expected to be in the western, northwestern and southcentral areas of the state.

Conclusions

The entire Upper Midwest is growing at a slower rate than the United States as a whole. To a large extent, this is a result of a regional pattern of specialization in slow-growth and declining employment sectors. Employment in major industries, such as agriculture, mining, and railroads, declined markedly during the 1950's and this trend is expected to continue during the next decade. Considerable growth in other employment sectors is required merely to avoid a decline. The region must, in effect, run fast in order to stand still. Under such circumstances, total economic growth is possible only through very rapid expansion in the sectors which are growing.

As part of the Upper Midwest, Montana shares its characteristics and problems. The projections discussed earlier paint a dim picture for the state as a whole but indicate that various parts of the state are expected to make fair economic gains while others merely hold their own. The difference between Montana and the United States as a whole or the more rapidly growing areas of the Upper Midwest is the extent to which the Montana economy is still dominated by slow growth and/or declining employment sectors. Gains in other sectors are barely large enough to offset these adjustments.

The projections in this article, it should be pointed out, are neutral. That is, they assume that the forces creating present trends will continue undisturbed. The purpose of economic forecasting, of course, is to call attention to the present as well as the future. If we are not satisfied with what the future appears to hold under present conditions, a knowledge of those conditions and the kind of future they appear to have in store may make it possible to alter our economic future. Unlike a weather forecast—which we may either ignore or adjust to—an economic forecast may be made inaccurate by taking steps to change the course of developments which are predicted. It is not necessary to accept an unsatisfactory forecast. Rather, the course of events can be altered to improve future economic developments. Economic growth can be influenced by intelligent action.

The Outlook for 1966

MAXINE C. JOHNSON
Assistant Director
Bureau of Business and Economic Research
University of Montana, Missoula

The Nation

The preceding article mentions some of the hazards of economic forecasting. However, in considering prospects for 1966, most practitioners of the art seem inclined to stand or fall together regardless of these hazards. Almost all the experts, both in and out of government, agree that the American economy will continue its expansion in 1966; very few see signs that the end of this long period of growth—in process since February, 1961—is in sight. What disagreement has arisen centers on how much growth we should expect this year, and what proportion of the increase in the dollar value of our production will be due to real increases in output rather than rising prices.

Certainly the new year has begun under auspicious circumstances. It inherited an economy which in 1965 produced over $675 billion worth of goods and services, 7.5 percent more than in 1964.[1] Personal incomes had never been higher. Unemployment, at only 4.1 percent of the labor force, was the lowest since August, 1957,[2] and there was talk of manpower shortages in some parts of the country.

In short, 1965 was a very good year for the United States economy, and, unless drastic changes take place in international affairs, this year should be even better. Many economists are predicting that gross national product will reach $720 billion in 1966, an increase of approximately 6.5 percent over 1965's $675 billion GNP; some forecasters call this a conservative estimate. There is, of course, always the possibility that drastic changes either abroad or at home will occur. The war in Vietnam could become far more widespread, greatly increasing U. S. military commitments and making all economic fore-

[1]Estimate; final figure not available. New gross national product series.
[2]Seasonally-adjusted figure for December, 1965.

casts meaningless. Recently, misgivings about rising prices have been growing. Last year, consumer prices rose about 1½ percent; most economists anticipate a rise of from 2 to 2½ percent this year. Such an increase would be too great for complacency, but would hardly qualify as "galloping inflation." Yet in December of last year the Federal Reserve Board was concerned enough to increase the discount rate from 4 to 4½ percent, in an effort to slow the expansion of business and consumer spending through higher interest rates, and to reduce the pressure on prices. Most observers agree that the discount rate increase will have only a mildly dampening effect on the economy; the Board's decisions as to how much credit to make available to the banking system in coming months will be of far greater significance. These decisions will be affected by the extent of anticipated increases in federal spending and in business investment for new plant and equipment. If such spending is greatly increased, additional restraints—both monetary and fiscal—will be necessary. If, instead, military spending should decline as a result of a curtailment of the Vietnamese conflict, government policy will shift to an attempt to stimulate the economy.

Although these uncertainties make predictions difficult, the best judgment at the present time appears to be that the U. S. economy, as measured by gross national product (and taking into account price increases), will continue to grow at a rate almost as fast as last year.

Four major components make up gross national product: personal consumption expenditures; gross private domestic investment, which includes business spending for plant and equipment, other non-residential construction, residential building, and changes in business inventories; net exports of goods and services; and purchases of goods and services by federal, state, and local governments. Most forecasters foresee increases in all these components except the foreign trade balance (excess of exports over imports) and business inventories (a part of gross private domestic investment), which are expected to decline. The three major components where growth is anticipated are discussed below.

Personal consumption expenditures. Affluent American consumers, in their willingness to purchase ever larger amounts of goods and services, have contributed mightily to economic growth in recent years. Among last year's principal beneficiaries of this eagerness to buy were producers of automobiles and color television sets. Whether or not these two items remain at the top of shopping lists for 1966, there is little doubt that consumers will continue to increase their over-all spending as their incomes grow.

Workers covered by the social security program—and that includes nearly everyone—found their take-home pay reduced in January by a rise in contribution rates; the base salary on which the contribution is calculated also has been increased from $4,800 to $5,600. But total personal income is rising fast enough to soon offset this loss in spendable income. In addition, reduced excise taxes (including taxes on telephone services) as of January 1 and payments to persons under the Medicare program beginning in July will put more money in consumers' pockets.[3]

Gross private domestic expenditure. A survey taken in the fall of 1965 by the Department of Commerce and the Securities and Exchange Commission indicates that businessmen intend to continue increasing their investments in new plant facilities and equipment this year. The survey was concerned with the first half of 1966 and it was taken before the rise in the discount rate. The general feeling is, however, that most businessmen will consider prospects too good to change their plans because of a half-percent increase in interest charges, and that the increase in capital investment by business this year will almost equal the 15 percent gain over 1964 recorded last year. On the other hand, businessmen probably will not increase their investment in inventories this year; at the present time many firms are still working off the large inventories accumulated as a hedge against a possible steel strike last summer. Once this reduction is completed a more normal inventory-to-sales ratio will probably be the rule.

Residential construction, the third major segment of gross private domestic investment, has been a source of disappointment for several years. Total expenditures for new housing and the number of new housing units built have increased rather slowly. Not much increase in number of units is expected this year, although some housing experts point to a shift toward a greater preference for single units instead of apartments and toward larger and more luxurious homes. The rise in home mortgage rates, however, may cause some potential buyers to postpone their purchases.

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[3]In his State of the Union address on January 12, President Johnson asked that the reduction in excise taxes be rescinded.

Government purchases of goods and services. There is little doubt that the growing costs of the war in Vietnam will cause increased federal spending this year, some of it at the expense of the new domestic programs. Many of these programs were started slowly with the expectation of increasing the funds available in fiscal 1967; in a number of cases, these increases will surely be much smaller than anticipated. Federal purchases of goods and services (excluding grants to state and local governments and payments to individuals) are largely defense-oriented and may increase by 10 percent or more, to as much as $75 billion. State and local government purchases, which have been increasing rapidly as the demand for schools, medical facilities, and highways grows, will not be far behind; a 10 percent increase in their expenditures, which is not unlikely, would place their total purchases at around $73 billion. Obviously, government spending will play an important part in keeping the economy growing; indeed its problem may be to keep from overplaying the role during coming months.

As the forecasters see it, then, 1966 should be another year of growth and prosperity for Americans. Most of the uncertainties center on what will happen in Vietnam and in the policies the federal government will find it necessary to follow in its attempt to continue the stable growth of an economy already operating at very high levels. Since most of our readers are particularly interested in Montana let us take a closer look at what this year may hold for the Treasure State.

The State

Last year, 1965, was an uncommonly good year in Montana. Next to the influence of a growing national economy, which provided a ready market for Montana products, the biggest factor in the state's excellent showing was the weather. With rare benevolence, climatic conditions last year provided an unusually good growing season for crops—the wheat crop was the largest since 1955—and, during the exceptionally mild fall, permitted outdoor work of all types to continue much longer than usual, thus helping to establish an excellent nonagricultural employment record for the year.

The very large wheat crop, which more than compensated for a slightly lower average price, together with greatly improved cattle prices in 1965 meant a welcome increase in agricultural income. In both 1963 and 1964, farm income declined, offsetting small gains in nonfarm income and forestalling any increase in total personal income in the state. But the improved 1965 agricultural income, in combination with increases in nonagricultural employment and earnings, means that when the 1965 estimates of total personal income become available (in April) they should show a nice increase. In fact, the 1965 figure may well have exceeded $1,650 million, as compared to the $1,587 million figure for 1964. Such an increase in total income also means that per capita incomes in Montana will show a significant gain, after allowing for price increases, for the first time since 1962.

It is tempting to say, flatly and cheerfully, that 1966 may well be another year of growth for the Montana economy. The national outlook, which always affects the state, is good, and certainly prospects for nonagricultural activity in Montana this year look promising. During the early part of 1966, the effects of 1965's increased farm income (most of which was received in the fall) will be evidenced by increased spending by famers and ranchers. But in an area where agriculture plays as important—and as volatile—a role as it does in Montana, no prudent forecaster would be guilty of such recklessness. A very dry spring, for example, could bring about a radical change in the spending plans of the rural population, as well as in their income prospects for the year. So, let us say that *if* 1966 proves to be a reasonably good crop year, then 1966 should be another prosperous year in Montana.

There are a number of reasons for optimism about prospects in the state this year. If predictions for the national economy are accurate, then the heavy demand for Montana's major exports—wheat, cattle, metals, petroleum, and wood products—will persist; expenditures by out-of-state visitors in Montana's travel-oriented businesses will continue to increase. This means continued high employment and earnings in these industries. Like other Americans, Montanans will likely continue their heavy expenditures for goods and services, keeping cash registers ringing—and employment and earnings high—in the state's shopping districts.

Two large federal projects will create new jobs and income in the state this year and will play an important part in the state's economy for several years to come. One, the installation of additional missiles and launching sites in the Shelby-Conrad area of northcentral Montana, is already underway, with several thousand workers employed during the fall of 1965. Preliminary work on the other major project, Libby Dam in northwestern Montana, will begin this year, with over 600 workers anticipated by summer. Peak employment at the dam is not expected until 1969, when as many as 2,300 workers may be employed. In anticipation of the dam work, some expansion of retail and service industries is already underway in Libby and vicinity.

It is pleasant to report this improved outlook for the Montana economy, but it also is important to keep a long-run perspective on economic developments in the state. The fact remains that developments in 1965 and the outlook for 1966 do not alter the long-run forecast as prepared by James M. Henderson and Anne O. Krueger for the Upper Midwest Economic Study and discussed by Dean James L. Athearn in the lead article in this *Quarterly*. Indeed, a progress report recently issued by the Upper Midwest Research and Development Council[4] indicates that although Montana's population growth through 1964 exceeded the projection by Henderson and Krueger, the growth in the state's total personal income failed to reach the projected amount. In constant dollars (adjusted for price increases), total personal income in the state achieved an average annual gain of 1.6 percent, or only half the projected annual gain of 3.28 percent forecast for the 1960-1975 period.[5] This means, of course, that per capita income also fell short of its projected increase. Low farm income in several years is partly responsible for this failure to keep pace with anticipated growth; however, the Upper Midwest report also indicates that nonagricultural employment fell slightly short of its projected increase between 1960 and 1964. It is clear then that the Montana economy must continue to accelerate its growth if it is to achieve the levels of employment and income predicted for 1975 by the Upper Midwest Study. If we are to do better than Upper Midwest has predicted, and more closely approximate the national rate of growth during the coming years, then even greater changes will be necessary.

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[4]Charles A. Stoerzinger, *Current Economic Progress Report for the Upper Midwest, 1964*, prepared by North Star Research and Development Institute for the Upper Midwest Research and Development Council, Minneapolis, Minnesota, October, 1965.

[5]See Table 13 in the preceding article.

Why Land-use Planning?

PART I

WILSON F. CLARK, Chairman
Division of Science and Mathematics
Eastern Montana College, Billings

NOTE: This article is based on the keynote address given by Dr. Clark at the annual conference of the Montana Conservation Council, April 9, 1965, in Missoula.

Few facets of our modern society are as all-pervading as planning. We plan for a boom in population, for vastly accelerating demands on resources of all kinds, for space to house people, transport people, amuse people, feed people, educate people. We plan for youth; we plan for old age. We plan for living; we plan for dying. But do we stop to consider how irreversible the area of land-use planning can be?

Why land-use planning? Indeed, when one views the many results of planning one often thinks that "no plans" might have been just as effective, although probably less costly, in creating the havoc to resources which many plans have caused. Certainly many plans which eventually are carried out have a modicum of success. But one need not look far for examples of land-use planning which were successful only in the grand and wonderful destructiveness which resulted.

A number of years ago a British author, spoofing the concept of sportsmanship, wrote a little piece with this title: *The Theory and Practice of Gamesmanship or The Art of Winning Games Without Actually Cheating.*[1] Later this "—manship" suffix was added to many activities. John Foster Dulles, for instance, was accused of "brinkmanship." The Izaak Walton League's *Journal* once carried a biting editorial entitled, "Beware of Multiple-Usemanship." And now, as our society enjoys the full flowering of the art of *conquering nature*, it is most appropriate to dignify, define, formalize, and categorize the various factors accounting for the success of professional plan-

[1]Stephen Potter, Henry Holt & Co., New York, (no date).

ners (both public and private) in destroying and sullying so much of our total environment. In keeping with the dignity of the profession, let us refer hereafter to it as "Planmanship," or "How to Do What You Want and Get Away With It."

Planmanship is an art and a science whose tenets can become clear with but a little study, for most administrators and planners have been practitioners of the art at various times. It is a fast-growing field of endeavor which cuts across social, political, educational, industrial, business, and economic lines. A person versed in Planmanship is adept at following an adage attributed to Mark Twain: "My mind is made up; don't bother me with the facts." But the successful Planmanshipman is not as crude as people were in Twain's day. A man then was honest enough to admit that he knew what he wanted to do, and hence he felt no shame at ignoring public welfare or brusquely brushing aside objections to his plans. He didn't really care what the public thought. If his use-it-and-leave-it philosophy left a heritage of resource problems, he made no bones about it. There was a certain charm in such directness, and at least there was no confusion at all as to who was responsible when things went wrong. But such directness is unthinkable to the devotee of Planmanship.

In following the Code of Planmanship one must be much more circumspect. One holds innumerable committee sessions, public meetings, and brainstorming periods. Articles appear in the public press. Clever and obscurely written publicity is released. A panoply of other activities occurs designed to soothe the opposition (and also the public) into thinking its desires are being fully and carefully considered. Other agencies must be consulted. Then, no matter what is finally done, or what they think of it, those agencies are implicated. A clever Planmanshipman cultivates a public image of being a great moderator. He listens attentively. He weighs carefully all aspects of a project. He ponders, studies, seeks advice. And in so doing he is scrupulously observing Tenet No. 1 of the Code of Planmanship, namely:

"Let everyone have his say."

Allowing all to testify, to speak their minds, to make statements, to be quoted in the public press has a great therapeutic and cathartic effect. In fact, in the *Journal of Behavioral Sciences*, Tenet No. 1 of the Code is often referred to as the "Purgative Phase." Mr. John Doe, after entering a statement, can then say, "Well, I guess I told *them* a thing or two." The wisdom of letting everyone have his say lies in the fact that multiple blessings accrue. You, the planner, are a fine fellow because you took Mr. Doe's criticism. (At least you took it down). As for Mr. Doe, his prestige is enhanced, for *he Testified* (with a capital T) at a public hearing on *this vital issue.* If Mr. Doe is in politics, how good that looks in print:

> Your candidate, Mr. John (Jack) Doe, Testified at the recent public hearings on that matter which is of grave concern to every citizen! Vote for Doe.

It hardly is necessary for Mr. Doe to report what was in his testimony. Suffice it to let all people know that *he testified.* The more testimony, the more public hearings, the more divergent the ideas expounded, then the better the Planmanship, for only if everyone feels he has "had his say" can the planner then proceed safely.

The second tenet of Planmanship must be stated as two co-equal directives. One directive applies to private enterprise, the other to public agency activities. For private enterprise, Tenet No. 2 (private) is this:

"Do not publicize THE PLAN."

Certainly private enterprise should not publish the results of engineering studies, conferences, and the like, or the public might begin to think it really should seriously look at whether or not *the plan* is to the public's benefit. Of course, in most instances, the Chamber of Commerce will be behind any plan which will produce jobs, but extreme caution must be used outside of the business community.

The co-equal second tenet which applies to public agencies is, unfortunately, less forthright, and often leads to complications. Tenet No. 2 (public) is this:

"Delay the publication of public hearings, then publish voluminously."

The secret of its success lies in the fact that through delay most persons who testified have lost their drive and vehemence, and through prolixity the very mass of unedited publications discourages critical review and thorough reading. Such actions also tend to equate the words of the fool and the words of the expert, giving them similar weight. The fool, when he gets his copy of the hearings, locates his testimony on pages 756 and 757 of volume IV of the 18th public hearings. *He* is satisfied—

even if he can't remember which side of the question he was on until he rereads his own testimony. Similarly, the testimony of the expert appears in all its grand, imposing, utterly confusing form, well-spiced with technical terms, with a fog index of about 25, and with sufficient statistics to bedazzle the committee. The expert is really impressed with the impression he made on the committee, so *he* is satisfied. Each (the fool and the expert) feels that his own truthfulness and wisdom are crystal clear, while the bias and duplicity of the other is exposed for all to see. The mantle of sanctimony now covers both, for their words are *in print*. Not only are they in print, but also they are in *government print*, which obviously adds stature and authority to their words no matter how ridiculous those words might be. The fact that words are in the *Congressional Record*, for instance, can be cleverly used for many purposes as they were in the last Presidential election in several publications. This is one area of Planmanship—this area of obscuring the issues with a time lag and by mere tonnage of testimony—that has seen some marked refinement of late, as any burdened postal clerk will tell you.

The third test of Planmanship needs little discussion, for it is so obvious. Tenet No. 3 is this:

"Don't get your name associated with a plan."

I imagine that General Pick and Mr. Sloan regretted many times, not the plan bearing their names, but the error of permitting their names to be attached to *the plan*. If a Planner, be he an industrialist, a realtor, a politician, an educator, or a bureaucrat, can remain obscure, even though the decision-making power is his, then he is upholding the highest traditions of Planmanship.

And lastly, the final tenet of Planmanship follows quite smoothly from the previous three. Tenet No. 4 says:

"Do what you wanted to in the first place,
regardless of the consequences."

None will be the wiser. Everyone has been heard (Tenet No. 1). No publicity (Tenet No. 2, Private), or lots of publicity (Tenet No. 2, Public) has been given, making each person feel that his advice was taken. No one can identify the final decision maker (Tenet No. 3). And so you can, without fear of interference, freely follow through on your plan.

There you have it—the Code of Planmanship. All of us—er, that is to say, all of you—have probably at one time or another qualified for the coveted Planmanship Award, for who among us—I mean who among *you*—does not recall those famous words: "Those people who think they know it all are extremely irritating to those of us who do."

In order that the advocacy of the Code of Planmanship is not carried on *in vacuo*, let us examine some specific examples of expert Planmanship in the field of conservation and land-use planning. One must preface these examples, however, with a definition of conservation which is widely regarded by conservation-minded people, namely: "Conservation involves the process of making intelligent choices among the competitive uses of resources." The art of Planmanship is most useful in creating the impression—the appearance—of *intelligence* being used in making choices. This appearance must be maintained at all costs, at least until *the plan* you want is realized, after which time appearances don't matter. Keep this point in mind as we analyze a number of situations in Montana and elsewhere.

Example No. 1

The Corps of Engineers and the Bureau of Reclamation demonstrated the highest degree of Planmanship in their joint endeavors in the Upper Missouri Basin in the last several years, when a dozen plans were offered for public discussion as to how to handle the Missouri River from Fort Benton to Fort Peck. When all the shouting ceased, and the advocates of each plan had laryngitis, the agencies pontificated, and handed down the decision as to which plan would be used. One suspects that *that* was the plan all along, for it contains the ingredients dear to the hearts of those two agencies and demonstrates amply their disregard for aspects of land and water use alien to their philosophies. But they made one slip. Soon after th announcement of *the plan*, the General and the Regional director were publicly exchanging acrimony over just who was to build what dams. Tsk, tsk.

Example No. 2

In its own way, the Bureau of Indian Affairs manages to walk away each year with several "Planmanship for People" awards. No other agency can boast of having so many plans which are usually conceived without the annoying bother of consultation with the people (Indians) ultimately involved—plans which fortunately often fail to reach fruition. The disregard of what should be the Bureau's main mission—helping the Indian people to learn how to help themselves—and the ingenious delaying tactics which are applied to discourage any emerging Indian leadership are matched in cleverness only by the commendable courage of the Bureau in viewing with vast suspicion any other body (state or federal agency or even private group) which attempts to stimulate, foster, or assist in the growth of Indian leadership. For dexterous public deception, the Planmanship Awards Committee has for each of the past several years unanimously selected a BIA officer to receive the coveted "Planmanshipman of the Year" award.

Example No. 3

In Billings, Montana, a new road was to be built up the face of the rimrocks, replacing the old airport road. The cliff face was to be cut way back, and sloped. Public meetings were held, particularly with nearby home-owners. The home-owners registered their hope that their properties would not be subjected to erosion and flooding from the road, and they were assured that such factors were being "seriously considered." Maps and articles were printed in the *Billings Gazette*, and finally the work commenced. In time the job was done. What a beautiful road it was—wide, not too steep, sloped towards the outside shoulder—a joy to drive on. But then, in the spring of 1964 the rains came. Water cascaded from the cliff, ran completely across the road (it sloped outward), broke through the low asphalt diking in many spots, cut one immense and many smaller gulleys in the long and steeply sloping bank, roared down several lanes, streets, and driveways below the road, flooded one hopeful home-builder's newly poured cellar, dumped inches of silt in the pedestrian underpass at the foot of the street, and finally it drained into the Big Ditch. This all resulted from one small oversight in planning: failure to consider water drainage. The State Highway Department has since then spent a good deal of time and money in trying to rectify the oversight.

Example No. 4

Certainly the Fish and Wildlife Service deserves at least some consideration for a Planmanship award, as do many state fish and game departments, for having the dynamic leadership ability to progress vigorously with predator control programs (and for states to continue bounty systems) in the face of overwhelming evidence from many scientific and economic studies which show both the futility and often the danger of such programs.

Example No. 5

The leading advocate of multiple use, the U. S. Forest Service, has a number of glowing entries in the contest to acquire a Planmanship award. Some (but not all) of its spraying programs certainly adhere closely to the Planmanship tenets outlined. As a further example, if the Forest Service is successful in realizing its decision to go ahead with road construction in Area E of the Selway-Bitterroot Wilderness Area, the six years' labor on the Wilderness Bill and the comprehensive planning just now getting started under the Land and Water Conservation Act will be cleverly circumvented. Continued overgrazing on much Forest Service land in the Fishlake, Dixie, and Manti La Sal national forests in the arid southwest has resulted in serious flooding, washed out roads and campgrounds, silted fields and canals. I'm afraid, however, that because in too many instances the Forest Service has demonstrated considerable concern for the broad public welfare, it as a whole would be disqualified from receiving a Planmanship award, although certain individuals do qualify very well.

Example No. 6

Close to Syracuse, located in beautiful north-central New York State, lies Onondaga Lake—one of the Finger Lakes. The lake was a major attraction of the area, with much waterfront development. For years a huge chemical company has dumped most of its wastes into the lake. Now the lake is virtually 100 percent polluted. Almost nothing lives in the waters; at various times the smell of noxious gases hangs over a vast area of Syracuse and the surrounding territory. But the chemical company, a major job-producer, has vast power, and all efforts at forcing air and water pollution abatement have failed. In fact, the mayor recently declared that there was no air pollution problem and hence turned down the request of a Civic Air Pollution Committee petitioning him to seek funds for a study to rectify the air pollution problem. Does this have a familiar ring in Montana?

Delightful disregard of the public well-being can be illustrated by this statement attributed to a spokesman for a company causing a major air pollution problem: "Them stinks is dollars." Such unconcern is equalled only by the courage of those public officials who deny the existence of an air pollution problem. Excellent Planmanship of this calibre should be a source of pride to any city or state.

Example No. 7

Probably one of the agencies bearing the longest and proudest record of success in applying the tenets of Planmanship is the Bureau of Reclamation. Innumerable examples of successfully promoted plans exist, such as the Yellowtail Project in Montana, the Riverton Project in Wyoming, and many more. Not only has Planmanship been demonstrated clearly, but also the more complex and refined science of multiple-usemanship. Multiple-usemanship, you see, consists of convincing the public that all possible uses of a reservoir will be met almost all of the time. No mention is made of the problems created for the recreational users of impounded water when power, irrigation, or possibly even navigation demands result in even a modest drawdown of the water level. Seldom touched on is the fact that not all soils are irrigable. And certainly taboo is the discussion of the possible public values of NOT building some of those structures. The Bureau of Reclamation certainly deserves a Plansmanship award, and I'm proud to be the bearer of the announcement of the Bureau's again receiving the only Class I Planmanship Rating awarded west of the 20-inch rainfall line.

Conclusion

The list of examples one might cite is very long. The Bureau of Public Roads and many state highway departments have earned Planmanship accolades many times over, by their blithe, delightful, utter disregard of the values of competitive land and water uses. Many industries qualify through exhibiting that pioneering, laissez-faire, ruggedly individualistic philosophy of not giving a damn, resulting in the marvelous water, air, and land conditions so prevalent in many areas of our state and nation. With quiet, professorial, and self-righteous confidence, innumerable educational institutions qualify through their destruction on the one hand of unique areas through frenetic building programs, and their search on the other hand for situations suitable for teaching about natural environments. Certainly countless real estate developers must be charter members of Planmanship International, because of their creation of subdivisions on flood plains, or on heavy soils, or on sites where consideration of air, water, soil, or space problems obviously played no part in the decisions. The widespread antipathy to zoning, the destruction of recreational and historic sites, the presence of completely untreated, raw effluvia from 3,000 cities and towns which is allowed to enter our streams—these and many more—all illustrate how thoroughly land-use planning is reaching its zenith of success via Planmanship. Do not be disappointed if the agency or the industry you represent has not been singled out for mention and commendation here. It is not an oversight, for undoubtedly, each, given adequate study, could be found to qualify for third-, second-, or possibly even first-degree Plansmanship awards. I apologize that time and space prevented your group from being included.

These examples give food for thought. As you deliberate about land-use planning, *you* must decide which road to follow. Will it be the road of deliberate, careful, judicious, long-range, effective, logical land-use planning so touted by a few academicians, or the much more heavily-travelled, unemcumbered, lucrative, attractive road laid out so enticingly for you through the application of the Art and Science of Planmanship?

Why Land-use Planning?

PART II

NORMAN E. TAYLOR, Director
Bureau of Business and Economic Research
University of Montana, Missoula

NOTE: Dr. Taylor's article is based on a talk given before the annual conference of the Montana Conservation Council, April 9, 1965, in Missoula, as a response to Dr. Wilson F. Clark's keynote address.

Introduction

Since there are so many contradictory opinions concerning land-use programs, it may help to start the discussion of land planning from a base on which everyone can agree. First, many people seem to be of the opinion that land-use conflict is a twentieth century phenomenon. No belief could be more patently erroneous. At any point of recorded history one may document some degree of competition for land resources. From the earliest tribesman protecting his cave against marauders, to the contemporary affluent suburbanite resisting commercial encroachment, man has been contesting others' uses of the land around him. The intensity of debate and the complexity of issues have changed in degree but not in substance. More people, higher living standards, and greater leisure time make it possible to plan for, and afford, more land uses. Traditional methods of resolving disputes by displays of power and armed aggression luckily are giving way to open forums, courts of law, and the ballot box.

Secondly, however, it is time for evaluating or determining modified use policies to conform to new problems. Just what these procedures must be, in individual cases, is not always apparent. But it is clear that, unless we are content with stagnation, new techniques are mandatory if *any* decisions, especially intelligent ones, are to be made. The acceptance of an inept status quo which characterizes so many regional issues will persist unless we devise machinery for handling protagonists and their problems. When we permit fifty federal, state, and local administrative units unilaterally to pursue their own narrow objectives in the management of the San Francisco Bay shoreline, for instance, the result, most charitably, can only be chaos.[1] Pollution, water supply, recreation, grazing, and such problems require imagination and cooperation from the affected parties if reasonable action is to be expected.

Conflicts over land use do not arise only because individual men are stubborn, ignorant, or selfish—although, of course, such people are involved in these controversies. The primary cause of dispute arises from fundamental economic considerations as judged by men. Most land areas have more than a single use. When the way they are used produces a lesser net social and economic return than some alternative use, pressure develops for conversion to higher revenue activities. Our land resources are limited and in most cases fixed. Uses of land, however, are diverse and almost limitless. What society needs and wants from its land is subject to wide variation between locations and from given locations over a period of time.

If use of a certain land area is expanded to recreation, for instance, typically it is increased at the expense of some other activity—for example, logging. Entrenched interests normally will contest encroachment as vigorously as others try to promote it. When changes in use are accomplished, as when residential areas are rezoned for light industrial construction, adjoining land parcels are likely to change in economic and social value. A new freeway might multiply nearby bare land values; a new rendering plant might diminish the worth of identical types of land surfaces.

What makes this discussion particularly appropriate at this time is the fact that more and more citizens have become aware that our land resources are not in inexhaustible supply, and that unless we act immediately we are soon likely to be more of a "have not" nation as our population expands. Millions of acres need soil stabilization and erosion controls, or water retention improvement, or planting and thinning of trees, or plant protection from insects, diseases, and fire, or

[1]A supra-governmental organization has recently been created to reconcile differences and get the planning job done.

simple reclaiming from idleness (abandoned strip mines, for example), so that our total resources may realize their potential values. Of course, if we choose to ignore aesthetic and humanitarian standards and use only economic yardsticks, much less will be done than is possible and desirable. If we allow splintered and unilateral self-interest calculations to dominate, can we achieve our objectives or carry out our stewardship responsibilities for our children? Some possible answers are developed in the discussion of land-use planning which follows.

What is Meant by Planning?

Planning, as the word is employed in this article, is simply the application of scientific method to land-use problems. Instead of non-logical, random, and typically erratic techniques, planning should be an orderly and rational problem-solving procedure. In essence it involves, in turn, the determination of the goals and purposes (individual and/or collective) that are sought, an appraisal of the current state of nature (which defines the gap to be bridged), the establishment of priorities for the variety of objectives and, finally, the selection of the means (among many alternatives) to gain these ends. There is no mystery to the process; it merely specifies that organized intelligence be employed instead of narrow, capricious whim.

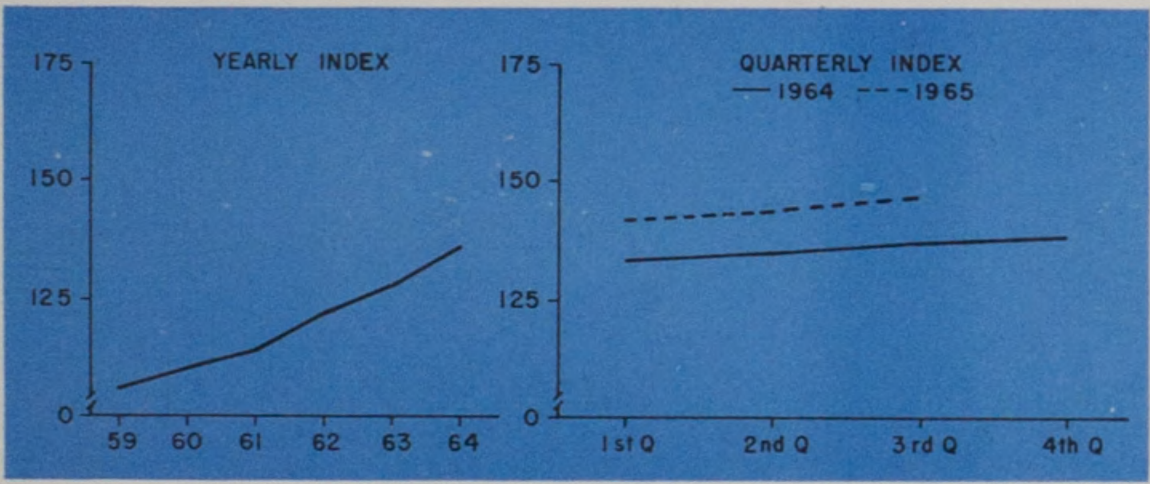
To be opposed to planning, as defined above, is to be opposed to reason and rationality. This observation is conscious and intentional. The anti-planner is naive and unrealistic; while the objectives of planners may be difficult to achieve, comparable goals by *not* planning are virtually impossible to attain.

The anti-planner apparently thinks that problems of this sort will somehow be resolved by ignoring them, or hopes that they will magically disappear while every owner-user pursues his own objectives. This is akin to choosing a wardrobe blindfolded by sticking pins in a catalog's pages. It is true that the planner must frequently act without complete information or often use inaccurate data; he must adjust to the realities of contradictory land uses, political dissension, jurisdictional belligerence, and other environmental factors; he must make judgments on complex matters involving relationships that may not be apparent today. Even though the planning process is difficult it is, nevertheless, necessary.

National Indicators —

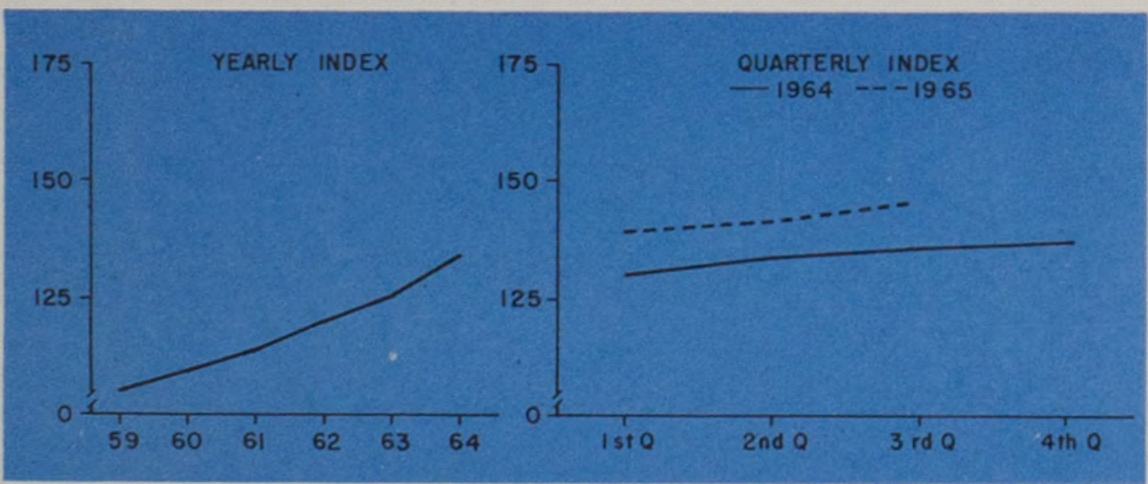
GROSS NATIONAL PRODUCT

1957-59 = 100 — Seasonally adjusted, annual rates



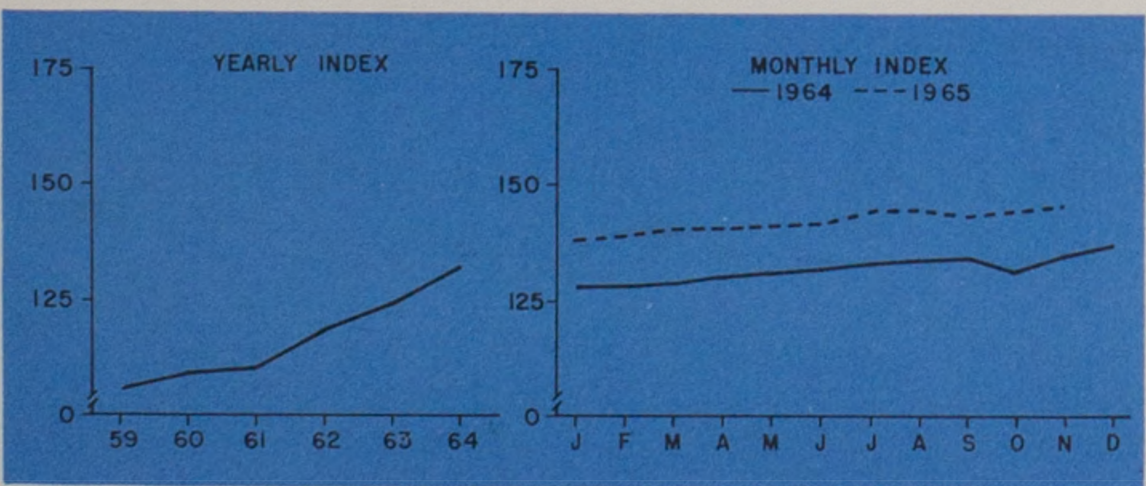
DISPOSABLE PERSONAL INCOME

1957-59 = 100 — Seasonally adjusted, annual rates



INDUSTRIAL PRODUCTION

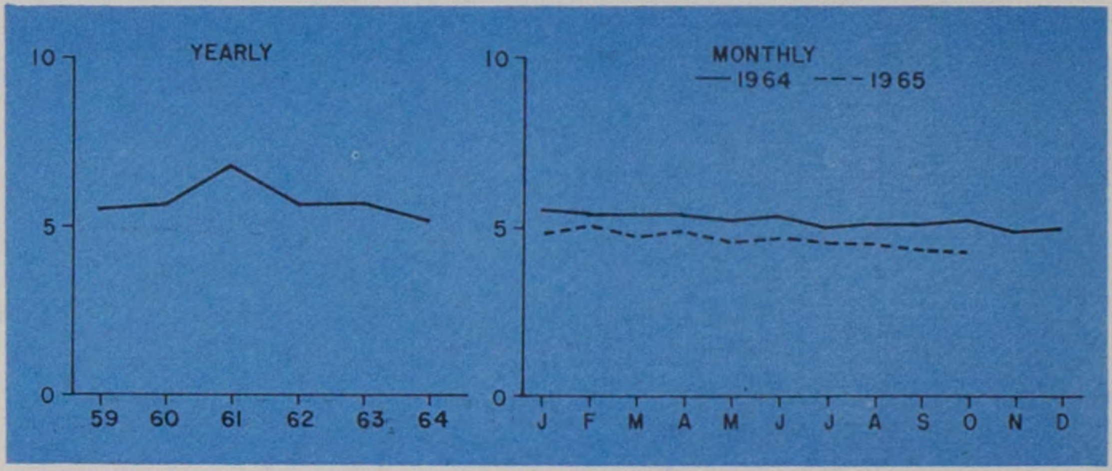
1957-59 = 100 — Seasonally adjusted



National Indicators —

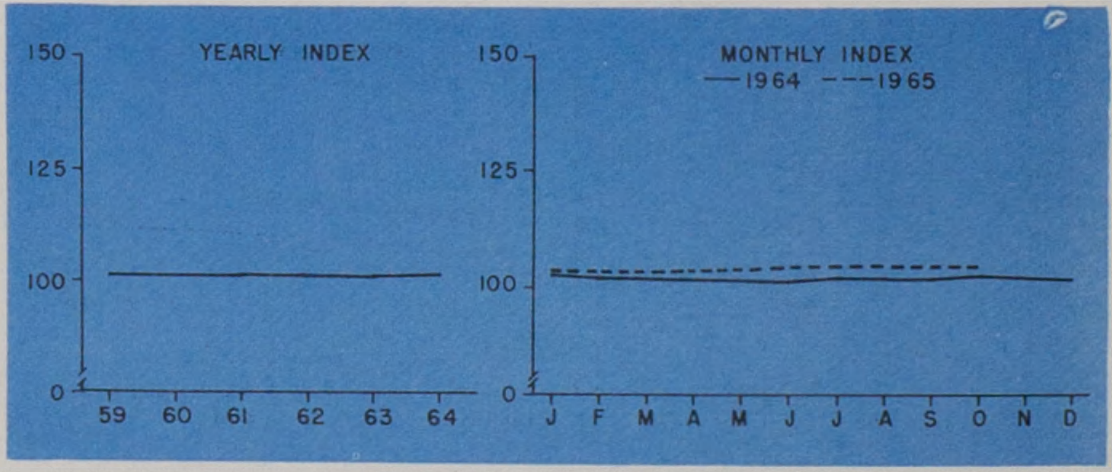
UNEMPLOYMENT AS % OF THE LABOR FORCE

Seasonally adjusted



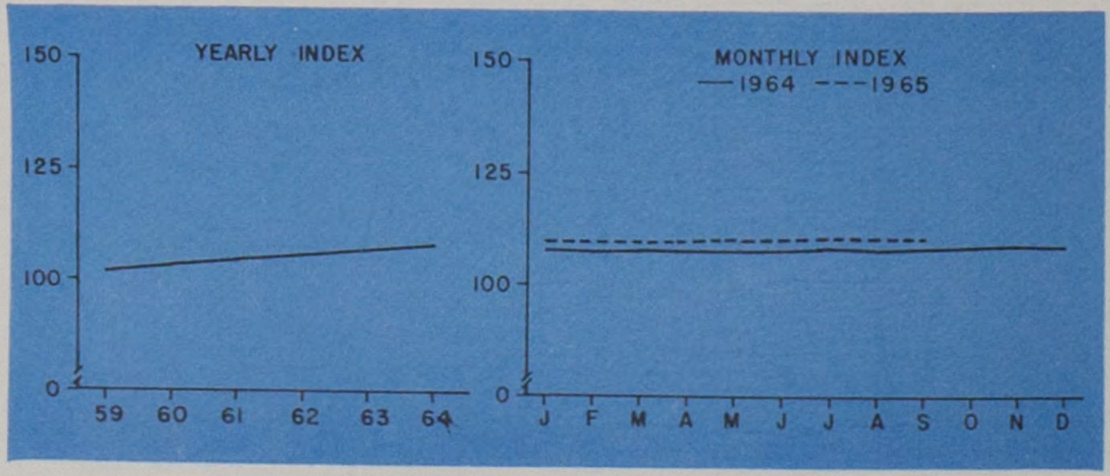
WHOLESALE PRICE INDEX

1957-59 = 100



CONSUMER PRICE INDEX

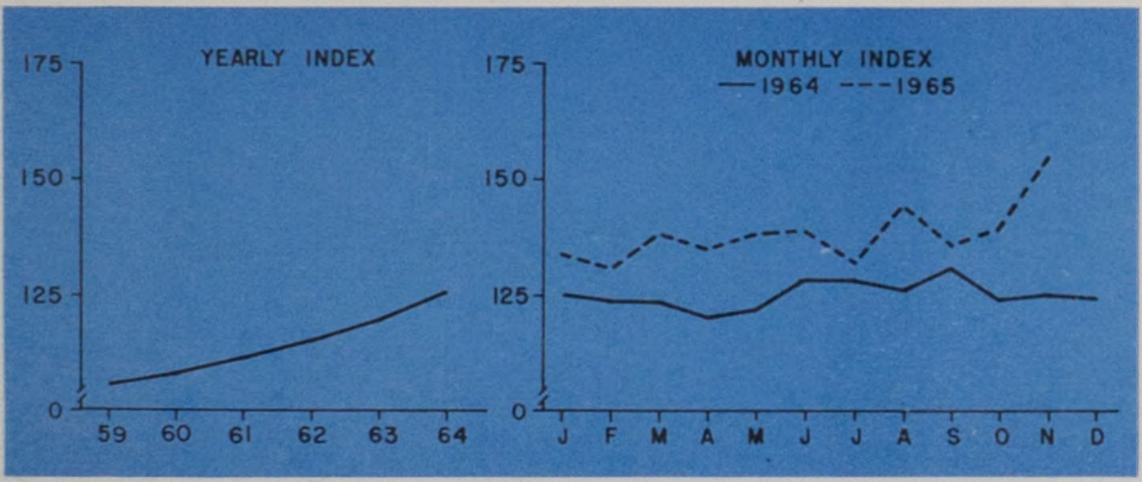
1957-59 = 100



Montana Indicators —

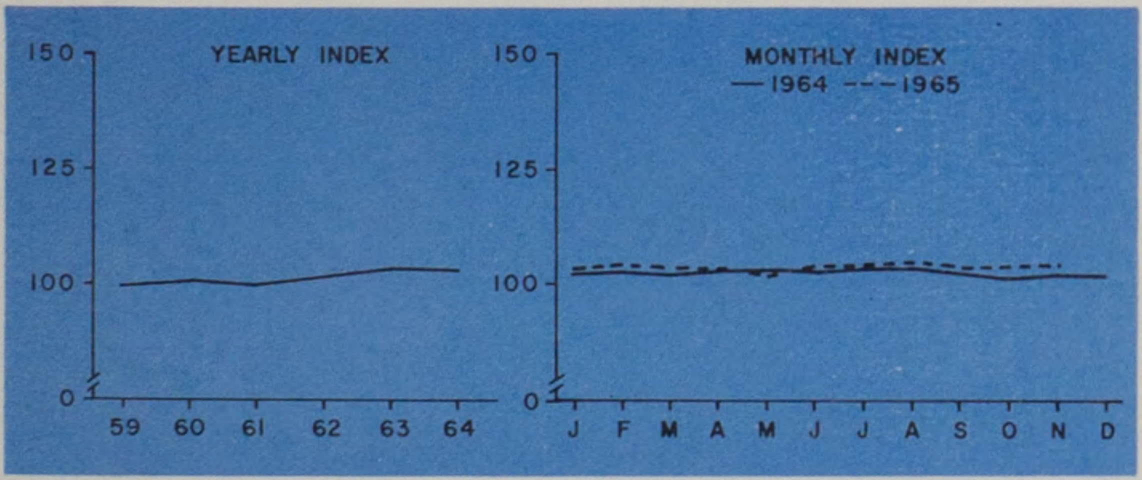
BANK DEBITS

1957-59 = 100 — Seasonally adjusted



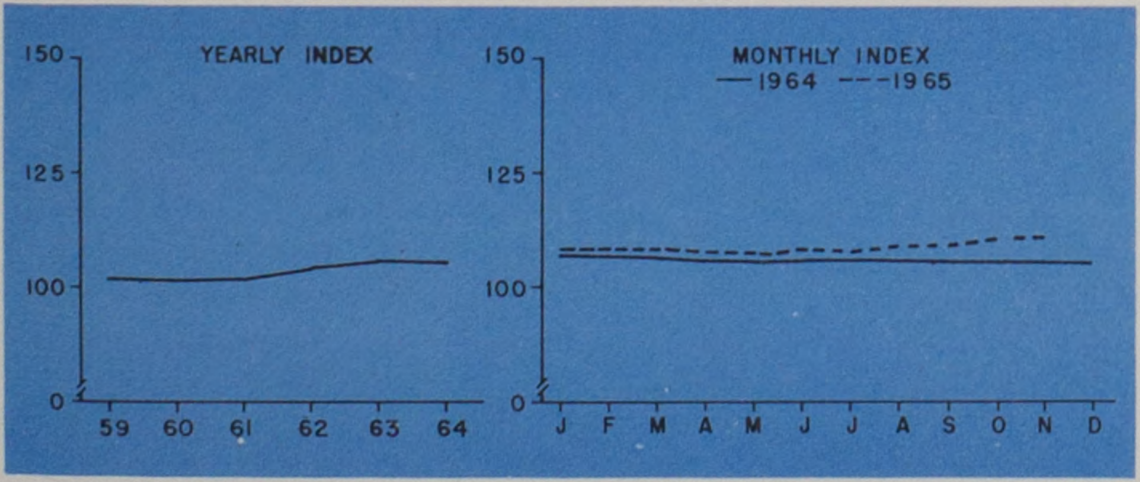
EMPLOYED WORK FORCE

1957-59 = 100 — Seasonally adjusted



NONAGRICULTURAL EMPLOYMENT

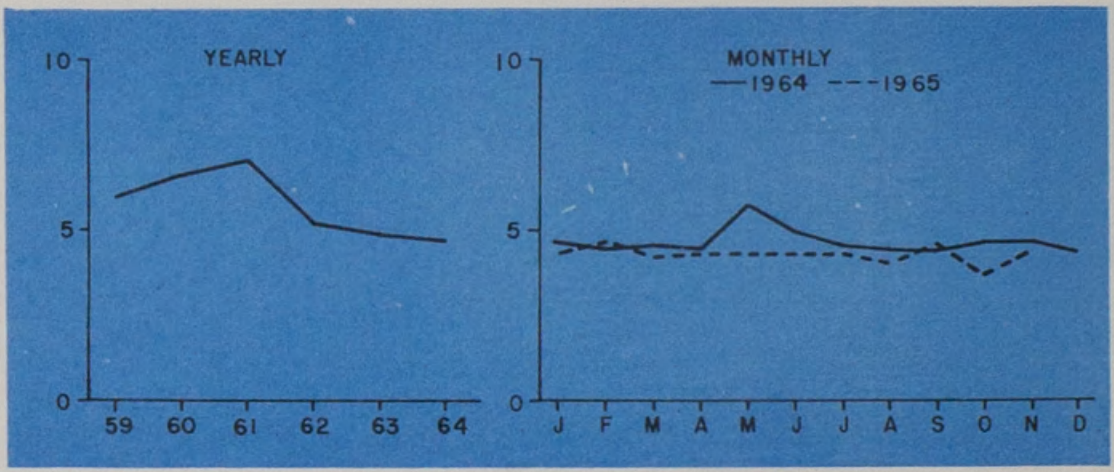
1957-59 = 100 — Seasonally adjusted



Montana Indicators —

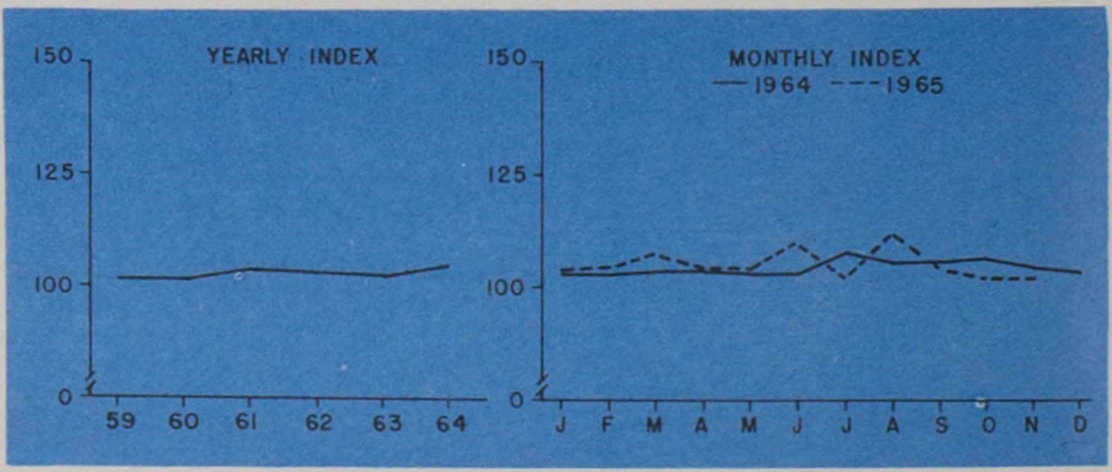
UNEMPLOYMENT AS % OF THE LABOR FORCE

Seasonally adjusted



AVERAGE WEEKLY HOURS, MANUFACTURING

1957-59 = 100 — Seasonally adjusted



SOURCES OF DATA

National Indicators

Gross national product: U. S. Department of Commerce, Office of Business Economics.

Disposable personal income: U. S. Department of Commerce, Office of Business Economics.

Industrial production: Board of Governors of the Federal Reserve System.

Unemployment as a percent of the labor force: U. S. Department of Labor, Bureau of Labor Statistics.

Wholesale price index: U. S. Department of Labor, Bureau of Labor Statistics.

Consumer price index: U. S. Department of Labor, Bureau of Labor Statistics.

Montana Indicators

Bank debits: Federal Reserve Bank of Minneapolis.

Employed work force: Unemployment Compensation Commission of Montana, in cooperation with the U. S. Department of Labor, Bureau of Labor Statistics. Excludes military.

Nonagricultural employment: Unemployment Compensation Commission of Montana, in cooperation with the U. S. Department of Labor, Bureau of Labor Statistics. Wage and salary workers only.

Unemployment as a percent of the labor force: Unemployment Compensation Commission of Montana, in cooperation with the U. S. Department of Labor, Bureau of Labor Statistics.

Average weekly hours in manufacturing industries: Unemployment Compensation Commission of Montana in cooperation with the U. S. Department of Labor, Bureau of Labor Statistics.

Problems in Land Use

One relationship alone, even if there were no others, guarantees that problems regarding land use will develop: there is a scarcity of many types of land which must serve a variety of purposes. Under very broad headings we may classify land as follows: urban, rural (agriculture production as well as low density residential use), forests, wildlife production, mineral production, water storage and regulation, grazing, recreation, and transportation. Examining more closely just the first of these, urban lands have many sub-classifications: residential, industrial, commercial, parks and playgrounds, public lands, railroads and airports, streets, and so on. Under residential types we might list: single-family dwellings, duplexes, apartments, trailer courts, cooperatives, condominiums, retirement villages, and so on. Under the single-family heading we can identify many illustrative uses including the dwelling area, walks, outdoor living (patio and children's game areas), driveways, garages, trash disposal sites, flower and vegetable gardens, and storage facilities. A high degree of complexity, interdependence, and potential competition or conflict of use is thus apparent.

Table 1 illustrates some of the compatibility relationships between the major classifications and underlines the fact that there are limited opportunities for multiple uses on common areas.

Another factor which is a source of constant contention is change—changes of technology, of market opportunity, of intensive and extensive utilization, of financial capacity, of taste, and of available time. Individual and society's preference schedules are in constant flux; new priorities put pressure on present land uses, ultimately forcing some degree of adjustment and accommodation. New rapid transit systems, or new freeway construction or paralyzing traffic jams, and the debates on each alternative, are representative of the contest over priorities.

A final factor which produces problems is ignorance and/or poor planning. Decisions are made from faulty premises which, in retrospect, turn out to have been improper. Even when reasonably complete and accurate data are available, poor interpretations of them may be made.

Some would add willful obstructionism to the list. Possibly,

TABLE 1

PHYSICAL COMPATABILITY (ON COMMON AREAS) WITH SECONDARY USE FOR:[1]

Primary land use	Urban uses	Recreation	Agriculture	Forestry	Grazing	Transport	Reservoirs and water management	Wildlife	Mineral production
Urban	complete	high for city parks; zero for others	none	none	none	very poor, except city streets	none	very poor	very poor
Recreation	none	complete	none	poor to moderate	very poor to none	very poor	poor	fairly high	very poor
Agriculture	none	very poor	complete	zero	zero	zero	very poor	poor to moderate	poor
Forestry	none	high	none	complete	variable— none to fairly high	zero	zero	high	poor to moderate
Grazing	none	high	none	usually very poor	complete	zero	poor to fairly high	high	poor to high
Transport	none	none directly; incidental on rights-of-way	none	none	none	complete	none	none	none
Reservoirs and water management	none	poor to high	very poor	very poor	poor to moderate	none	complete	poor to high	very poor
Wildlife	none	high	very poor	moderate	moderate	none	poor	complete	very poor
Mineral production	none	poor	poor	fair	fair to moderate	fair	poor	poor to fair	complete

[1]These are uses on identical or common areas.

Marion Clawson, R. B. Held, Charles H. Stoddard, *Land for the Future*, published for Resources for the Future, Inc. (Baltimore, The Johns Hopkins' Press, 1960), p. 449.

in isolated cases, this may be a factor which occurs independently of those cited. However, more often it seems to be no more than a partisan's assessment of a disputant's behavior. We might expect those facing disenfranchisement to resist; it would merely be another phase of competition which is, after all, the name of the game.

What is the evidence of problems in land use? Scarcely a single community in this country can contend that it has no land use conflicts. Traffic congestion, massive auto parking structures, slum areas and urban renewal programs, stacks of new legislation at all levels of government, barren, unused land, annexation struggles, tax assessment controversies, new garbage and sewage disposal plants, and a host of others are evidence of conflicts.

Evidence of profligate disregard of conservation principles is at hand for anyone to see. Extensive areas devoid of plant and grass cover, high silt and pollutant loads in our streams, water shortages, the disappearance of selected plant and animal species, and the low productivity of many cut-over forest lands are poignant documentation of earlier mismanagement. These areas and situations are problems at present because, even though the resources might have only marginal economic value, their potential value inevitably will rise. Any realization of future values will involve the commitment of money and technical skills to rebuild or to replace the resources lost. Rehabilitation and research expenditures made today and in the future, the low productivity of lands and the poor products and services from them, and numerous "Appalachian-type" economic regions, are the price society is paying for planning errors (or individual self-interest planning) and short-sighted exploitation.

New York City, perennially facing water crises, steadfastly refuses to take water from Lake Ontario or from the Hudson River; instead it chooses to dam the trout streams and flood the best dairy lands of the upstate counties. The upper-midwest and New England forests could have been managed to produce a steady stream of product and service benefits and still have retained their mixed-age and mixed-species character—a resource-mix which no longer exists. One cannot go back and re-do the past when decisions have been preempted by short-run interests. The future opportunity to achieve more than a single use from our land resources depends upon our willingness and skill in management. Such benefits require purposeful management which is simply another expression meaning planning.

The Need For Planning

Even though our behavior would belie it, the truth is that America's physical resources are not limitless. Based on current growth rates, industrial and household water needs will double in roughly fifteen years. Metropolitan areas are doubling, tripling, and quadrupling homes and businesses and public facilities. This encroachment on agricultural lands amounts to a displacement of nearly two million farm acres annually. Ever greater quantities of raw materials and agricultural products are necessary to feed our industrial machines and our growing population. Yet, at the same time, we need more acres for recreation. Our electric power consumption and output doubles about every ten years; hydro-electric projects preempt areas for many years and often prevent other uses. Many land uses, not compatible with other functions, are demanding more space annually and yet they are essentially unproductive. Residential parking (just the land under the car itself, not counting street parking, driveways, et cetera) in the United States by the year 2000 will require an area roughly the size of Glacier National Park; over a quarter of a million acres of land will have to be withdrawn from other uses just to bury those of us alive today.

To many people, it is a paradox that in the "space age" so many crucial problems on the earth's surface are really problems of space management—where to put machinery, transportation facilities, airports, people, defense plants, obnoxious firms, and so on. These fundamental problems will worsen each year, and new ones develop, unless there is cooperative and intelligent planning effort to reconcile our differences in objectives and values.

With hundreds of land uses, with thousands of individual objectives, with countless types and rates of change of land use, with unlimited variations of land quality and location—the number of possible outcomes, by the random interaction of only these variables, is staggering. Actually, there are several trillion potential outcomes; and most of them would be unacceptable to us. The odds that the randomly obtained result, at the end of any time period, would be to our liking are infinitesimally low. Such important matters ought not to be left to chance.

Much more study and research are required, and are in process, before we can truly comprehend all the dimensions of the complex problems we face in land use. One would expect that such new understandings would be incorporated in the resource problem-solving process and not ignored. If the people making these decisions assess the probable consequences of new concepts and technologies, they are engaged, however purposefully, in a planning process. When we employ standards to accept or reject alternatives for even the most restrictive land-use program, we are acting with a purpose, which is another definition of planning.

The questions raised here then are not concerned with whether to plan land use or not but rather (1) whether planning should be done in this fragmented fashion and, (2) whether only economic values should be considered in making choices.

The answer to both questions, for major policy decisions, is negative. Optimum national land usage is most unlikely when it is the outcome of individual, partisan economic interests. Also, individuals struggling bitterly for survival from particular land uses have neither the talent nor the financial capacity to behave altruistically. To preserve our power in world affairs, to increase our economic, political, social, and military security, to preserve or enhance total land-use values, to conserve our public resources—these necessitate a broader understanding of purpose than many should be expected to possess.

To repeat, the question is not whether to plan or not. Part of our problem today is that nearly everybody is engaged in planning—more than can be helpful. We are managing all our resources now, however well or badly, and this we must continue to do. Planning is simply one of the functions of management. But individual plans are seldom conceived with national or public welfare objectives in mind. The real issue becomes how to plan effectively to meet these broad responsibilities.

In Dr. Clark's article (where, except for the last paragraph, his position is contrary to his own convictions) the implicit argument is for no planning, since so much of it is poor. But no one is arguing *for* poor planning, even though poor planning is inevitable on occasion for the many reasons already discussed. His position is analogous to Adam Smith's "invisible hand" of the market place which argued that national economic goals were best, and automatically obtained when businessmen were free of all restraints. This premise has long since been discarded as meaningful or workable under complex modern conditions. As a nation we insist that entrepreneurs may not sell poisons or other harmful products (without close regulation), or misrepresent goods by fraudulent claims, or traffic in drugs, or employ child labor, or permit work to be performed without proper safety precautions. The business community and its operations have been substantially modified by restrictions designed to promote the general welfare. Increasingly, firms and industries have sought varied types of controls or regulations to preserve fair competition. The petroleum industry is a case in point; since the ownership of the resource is not identical with oil pool areas, to prevent wasteful duplication of wells and losses of underground deposits, controls were requested and accepted.

To do an effective job of planning land uses so that maximum benefits are received over time, we urgently need informed and responsible people. Conflicts will not disappear simply by getting agreement on purposes, although this will help. The error is to view controversies solely in terms of technology or of cost. It must be understood that people are the basis of land problems—the land surface may be the battleground but it is neutral.

Unfortunately, many of those who lose by mismanagement are not compensated. The destroyer of nature's beauty or of land's productivity seldom pays a society for its loss of values. It is futile to dissipate our energies bemoaning this fact or yearning for the "good old days" which were in fact not as good as wishful thinking has made them. We have made so many changes in our physical environment that we have no choice now but to manage it wisely for the future.

What Dr. Clark has emphasized in his paper is that good planning is extremely difficult. While plans made now for the future may turn out less than perfect, splintered planning is bound to be worse. We cannot afford to pay the exorbitant price, economically or socially, of the needless and much greater resource losses that would be attributable to the failure to plan. In a recent speech Mr. Arjay Miller, President of the Ford Motor Company, summed the issue very succinctly:[2]

> We do have an effective way to make sure that our [private] economy responds efficiently to the wants of the public. This is to rely on free private enterprise—the play of competitive forces in the marketplace. The consumers decide what should be produced. Their decisions result in rewards for efficiency—and penalties for waste. As the Russians are discovering, there is no substitute for the decision of the consumer, even in a centrally planned economy.
>
> Many universal needs, however, are not satisfied by the marketplace in our own society. Obviously, the market cannot provide national defense or law enforcement. The market has no effective way of dealing with such by-products of modern life as air and water pollution or traffic congestion. The market cannot provide adequately for highways and schools. Government has to fill these needs . . . .
>
> Demands on government for public services and facilities are growing steadily as our population increases, and as society becomes more urban and complex. Government will continue to grow, and so will its expenditures. This means that the quality of government decisions and the efficiency of government operations will become more and more important to our well-being. . . .
>
> We should support the development of such [problem-solving] techniques by government, I am convinced, because this will help make government more efficient in supplying the goods and services it must provide.
>
> The total purpose is more efficient organization in both private and public sectors for the betterment of society. The more effectively we can use the tools of modern technology and modern decision-making, the greater will be our power to improve the conditions of people in all levels of society.

This statement, from the head of one of the world's largest private companies, cannot be dismissed airily. Mr. Miller knows the value of planning as a factor in the success his company has enjoyed despite complexity, risk and uncertainty. He is unwilling to settle for less in the public sector.

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[2]Quoted from a speech given before the Economic Club of Detroit, October 4, 1965.

Business Ethics: A Problem for Society

LAWRENCE J. HUNT
Assistant Professor of Business Administration
University of Montana, Missoula

Does business today need a new code of ethics? Where do you begin to restore business ethics? How do you enforce a code of business ethics? These are questions being asked of business administration graduate students at the University of Montana. These questions are not necessarily raised in order to have the students come up with specific answers, but to encourage them to take serious notice of the problems in ethics which trouble the business community today. The questioning is done not in a spirit of religious revival but from a pragmatic viewpoint: the belief that morality in business is good for our total society. These graduate students, who have already shown superior ability, will one day be leaders in the business community and will be in a position to influence in some way the practice of ethics in business.

Perhaps the impetus for change in business ethics should not come from the educational sector of society. But where else can changes of this kind arise spontaneously? Ethical practices and codes of business ethics can evolve out of the business community, and sometimes they do. There are a number of business groups such as accountants, real estate and investment brokers, and life insurance underwriters, to name a few, who have recognized the problem of business ethics and have taken steps in their specific fields to establish workable codes of ethical practices. These are certainly impressive steps in the direction of ethics in business, but there still remain many segments of the business community without tangible ethical guidelines except for those restraints imposed upon them by the government and the value system of the total society. Maybe some of our graduate students who have been concerned with ethics will enter these segments of the business world.

There are a number of reasons why the business community at large should be concerned about the need of ethical guidelines for the conduct of business. Some of the causes touched on here are:

1. Society's skepticism regarding ethical practices in business, and society's general hostility toward business.
2. The trend toward greater governmental control.
3. The social problems arising out of automation and the increased complexity of business.
4. The problems arising out of population increase and the resulting increased complexity of total society.
5. The general belief among business leaders that a code of business ethics is needed.
6. The separation of religion and business.

These are only some of the areas which affect ethics—areas in which the business community should be concerned. Perhaps if the first problem given could be satisfactorily acted upon, the rest of the list would automatically correct itself. But in order to brighten the tarnished image of business, steps of an unusual nature must be taken in the moral order of the business community. Not only would business have to establish rigid codes of ethics, but it would have to enforce them and educate the public as to what it was doing. Indeed, great attention must be given to public opinion if business is to wipe out the stains left by the Billy Sol Esteses, the Bobby Bakers, the electric industry price fixings, the Texas Gulf Sulphur scandal, and the McKesson-Robbins fraud, to name a few. These publicized cases have given the public most uncomplimentary glimpses of business in operation.

Business in general should not, of course, be condemned by incidents such as these, but unfortunately business has a lengthy history of such happenings. Long before Jesus threw the money changers out of the temple, the status of the businessman has been low. The Egyptians, the Athenian and Spartan Greeks, and the Romans all regarded trade as being associated with dishonor. In Egypt and Athens a trader could only break into political circles through owning land, and Plato would have had the trader live apart from the aristocracy; he was not to share in the pure ideal of life of the ruling class. Rome scorned trade and tried to keep the trader from advance-ment to power and after the collapse of the Empire the Roman Church took up the task of subduing the profit-maker.[1]

To a certain extent this traditional low status concept of the businessman has carried over into modern times. Society still views the businessman with a jaundiced eye, and to a large extent the businessman has only himself to blame. He has done little about elevating his status. As is pointed out in the following excerpt from Miriam Beard's history of business:

> Many of the professions have acquired a respectable patina through reinterpretation of the past. Thus physicians are now wrapped in such dignity that the public forgets how recently they occupied the status of barbers. Lawyers have climbed from the family-solicitor relation to a solemn eminence as legal history was composed; art history has made the artist a legitimate successor of the bards and "old masters." Even the poor montebank, by stepping on the pedestal of the past, has increased his stature. Not so the business man; he still struggles on, unfathered and unhallowed, lacking annals and allegories, a mellowed image, a shell of mythos in which to creep. He is his own ancestor and, usually his memory does not reach back even to the last business crisis.[2]

It is unfortunate that the businessman has been saddled with this image of dishonor because he has contributed much to society; in fact, in modern industrialism, society could not do without him. Yet, though he has contributed much, he has not made enough effort to notify his fellow man of his contribution. This may be looked on as a high form of humility, but most people feel that the business community's contribution has been made not for the benefit of society but for the sole purpose of profit gain and that any benefits to society have been side effects.

The strange thing about this hostility toward profit is that it appears to be strongest among those who are direct beneficiaries—the working man. In rejecting the profit motive the worker, and society in general, rejects the very principle on which the capitalistic society must be based. This hostility may spring from ignorance of the facts: for example, a great majority of the population thinks that profits are many times larger than wages, where in fact total profits are seldom

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[1]Miriam Beard, *A History of Business, Vol. I,* (Ann Arbor, The University of Michigan Press, 1938), p. 30.

[2]*Ibid.*, p. 1.

more than one-tenth of total wages.[3] Has the business community neglected to "sell" its own image?

Business leaders may be well aware of this historic hostility, but they often discount it. "We are trying to operate a profitable firm, not win a popularity contest," seems to sum up the businessman's general attitude on the image of business morality. This sort of statement ignores the fact that without society's approval the businessman finds himself working against himself, because he makes up a crucial segment of society. Thus it only makes good sense for the businessman to come to terms with society; he must turn his attention to making himself respectable in his own eyes and in the eyes of those who are dependent upon him.

There are many, both in industry and out, who feel that an excellent place to begin this change in public opinion would be through the development, acceptance, and enforcement of a code of business ethics. And, in the long run, it seems to boil down to a choice—either public or private control to enforce the code. There has always been tension between big industry, with its concern for profit and market control, and government, with its concern for the national interest. This tension has increased as big business has become so large as to be quasi-governmental in its influence and, as recent history testifies, if the business community does not take care of its own problems the government on behalf of society will. While good business morals cannot be legislated, restrictions by law do serve the purpose of establishing guidelines by which outward business conduct can be judged and either sanctioned or condemned. A good example of how far industry will go before accepting social responsibility and establishing controls for its activities is seen today in the field of air and water pollution. And since business has not set up its own controls in this area the government, on behalf of society, will sooner or later be forced to do so.

While there may seem to be a tarnish on business morality, this is not the only reason a code of business ethics is needed. As scientific progress continues, changes in industry will bring with it many additional problems which will affect total society. A prime example of this is automation. Not since the Industrial Revolution has the business community experienced such drastic changes in the approach and scope of the economic

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[3]Peter F. Drucker, *The New Society*, (New York, Harper and Row, 1950), p. 88.

process. And, as during the Industrial Revolution, technological progress has again far outstripped sociological advance. If the past couple of decades are any example of what the future holds, the gap between social progress and technological progress can only widen. Already, the businessman concerned with ethics must ask himself what can be done for the worker who is displaced by automation; the railroad fireman who may have lost his job as a result of dieselization; the hardrock miner whose skills are no longer required. Ethics demands that leaders of management as well as labor and government must assume responsibility for relieving the hardships caused by technological advance.

Increase in technology is not the only force at work to complicate the relation of the business community with the rest of society. The rapid increase in population and the shifts in population which are taking place today bring with them social problems that complicate society all the more. To adjust to these problems and maintain any semblance of order in society, more built-in controls will be needed. Because management, workers, consumers, and all of the rest of the human elements of business come from this population, the business community is highly involved in this change and, therefore, should lead in the planning and providing for the problems that will develop out of this change.

Businessmen cannot allow themselves to be guided by the profit motive alone. If they do attempt coldly to maximize their profits they act in an unrealistic manner as well as in an immoral manner. They are first social beings and secondly businessmen. By playing this dual role they are in a better position than anyone to introduce socially acceptable ethical guidelines into the business community.

The need for moral revaluation is recognized by many business leaders. A study made by the *Harvard Business Review* reveals that 71 percent of 1,700 executives polled favored the establishment of codes of ethical practices for their industries.[4] Among these executives there was near unanimous agreement on the idea that a code would help executives in making decisions, although at the same time the majority of them felt that any industry-wide code of ethics would be difficult to enforce. However, only four percent of them wanted a government enforced code of ethics. From this, then, it seems that, until

[4] *Harvard Business Review*, July-August, 1961, p. 6.

the business community desires a code of ethics enough to want to self-enforce it, no code will be forthcoming from business.

One question regarding business morality which is often expressed by students of both economics and religion has to do with the dualism which exists in society matters of religion and economics. R. H. Tawney, a noted English economist, in his book, *Religion and the Rise of Capitalism*, deplores the dualism which regards the secular and the religious aspects of life as independent provinces, governed by different laws, judged by different standards, and answerable to different authorities.[5] His attitude toward the separation of spiritual matters from secular affairs is echoed by a fellow English economist, John Maynard Keynes, who is quoted as saying that modern capitalism is absolutely irreligious, without internal union and without much public spirit.[6] Here are men engaged in the study and projection of economics in which theoretically men act rationally and whose goal is to maximize gain. Yet these leading 20th century economists are deploring the lack of spiritual influence in the economic sector of society. Religion, they feel, is a necessary ingredient in the successful conduct of business. This is a question which should be pondered by business administration students and the business community today.

Writers, analyzing business history, have developed the theory that economic ethics have vacillated throughout time between the Individualistic Ethic and the Social Ethic. Under the Individualistic Ethic, the individual was all-important. The Individualistic Ethic in the business world was compared to Conservative Darwinism in the biological world where "survival of the fittest" meant no mercy was shown to the weaklings. The Individualistic Ethic proposed both a morality and a science of individual selfishness. From total society's point of view, the Social Ethic was an improvement, since the group, not the individual, was the prime consideration. Yet the fallacy of the Social Ethic is that individuals, while being group members, are still individuals and have personality drives that differ from those of the group.

Down through history these two ethics have conflicted. When the excesses of the Individualistic Ethic became too great, there would be a movement toward the Social Ethic

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[5] R. H. Tawney, *Religion and the Rise of Capitalism* (New York, Harcourt, Brace, & World, Inc., 1926), pp. 228-229.
[6] *Ibid.*, p. 229.

until its rules of conformity became too oppressive. But neither ethic completely satisfied the values of society. As one writer states it:

> Neither ethic by itself is adequate to the task; both are morally unspecific; and neither the Individualistic Ethic nor Social Ethic can muster evidence to show it is necessary and sufficient . . .[7]

Thus history has proven that a new ethic is needed. It will be up to the business community to find that ethic if it does not want a government-imposed one.

Political science writer, Golembiewski, suggests the new ethic be based upon Judeao-Christian principles, bringing religious philosophy back into the conduct of business. This ethic would possibly satisfy the question posed by another writer in the field.

> Our economy has been abundantly productive, our standard of living is at an all-time peak, and yet we are tense, frustrated, and insecure people full of hostilities and anxieties. Can it be that our *god of production* has feet of clay? Does industry need a new religion?[8]

With industry as the backbone of our capitalistic society, it seems apparent that measures must be taken to supply this backbone with the moral strength needed for all of society to stand erect to meet the challenges of our times. Each member of the business community should be asked the questions being asked of the University of Montana School of Business Administration students—plus one more: "What are you doing to further the cause of morality in business and society?"

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[7] Robert T. Golembiewski, *Men, Management, and Morality* (New York, McGraw-Hill, 1965), p. 44.

[8] O. A. Ohmann, *Harvard Business Review*, May-June, 1955, p. 2.

Outdoor Recreation and The Private Sector in Montana

L. C. MERRIAM, JR.
Associate Professor of Forestry
University of Montana, Missoula

Note: This paper is adapted from a talk presented by Dr. Merriam at the Outdoor Recreation Seminar, Montana State University, Bozeman, October 19, 1965.

If we think of outdoor recreation as pleasurable leisure activity in any outdoor setting, there are many aspects that directly concern private industry and private land owners. Urban areas offer various forms of privately owned amusement parks, golf clubs, swimming pools, race tracks, ball parks, and so forth. The privately owned areas in the large non-urban regions, particularly here in Montana, are most important, but their role may not be so apparent. This article will discuss several aspects of the private sector role in outdoor recreation in rural Montana: the characteristics of the state, and its attractions; the present and potential recreational users of Montana; some attitudes of Montana people toward recreation and the user; private recreation activities and problems; the challenge to private owners.

Montana, in land area the fourth largest state in the Union, has a population of slightly more than 700,000. The state contains scenic attributes second to none in the United States and attracts recreationists in large numbers from other states.[1] Until lately most of the prime attractions have been in or near the western mountains: parks such as Glacier and Yellowstone, the forest and wilderness areas, and Flathead Lake. Attractions range from forested mountainous wilderness and park land to lakes, river and stream canyons; recently prairie, open badlands, and interesting historic towns and sites have widened the appeal to include the whole state. Most of the major rec-

[1] L. C. Merriam, Jr. and M. B. Price, "Some Considerations in Planning for Outdoor Recreation in Montana," *Montana Business Quarterly*, Vol. 3, No. 2 (Spring 1965), pp. 18-33.

reation areas are on public land, particularly in the mountainous western portion of Montana. Yet there are important private holdings within and around these lands where private investment for outdoor recreation services can make and is making an important contribution. For example, West Yellowstone provides motel, eating, and other facilities (including a new airport on Forest Service special use permit land) for recreationists going in and out of Yellowstone Park.

We find that visitors attracted to Montana enjoy a wide range of outdoor activities: scenic driving, educational visits to parks and historic spots—including old mining towns—hiking, boating, fishing, horseback riding, tote-goting, photography, art, camping, picnicking, hunting, skiing, and just plain outdoor loafing. Public lands and public facilities are available for many of these activities. For others, there are ample private sector opportunities such as development of skiing facilities and restoration and management of mining towns.

The out-of-state user who comes to Montana for the first time probably follows the main-traveled highways heading to Glacier Park or Yellowstone. The first trip to Montana may be a part of a larger trip covering several western states, or it may be to a specific location predetermined by a travel agent or helpful friend. One hopes that the visitor will find what Steinbeck refers to in *Travels With Charley:*

> . . . It seems to me that Montana is a great splash of grandeur. The scale is huge but not overpowering. The land is rich with grass and color, and the mountains are the kind I would create if mountains were ever put on my agenda. Montana seems to me to be what a small boy would think Texas is like from hearing Texans . . .[2]

If the new visitor sees this, he may return again to visit off the road areas, back country, and old mining towns. He will need services provided by private enterprise—motels, good food, and good campgrounds of the sort being developed privately by Kampgrounds of America in Billings. The tourist will want good roads and facilities of similar standard to those in his own state. However, he will settle for less if other amenities are present—friendly people, reliable information, not too many no-trespassing signs, and good food, or places to cook it.

[2]John Steinbeck, *Travels With Charley in Search of America,* (New York, Viking Press, 1962), p. 142.

Our own people have similar needs when traveling through Montana but they may seek solitude and different opportunities, particularly off the main roads or in the off-season on principal routes. Because they are entitled to in-state hunting licenses and are familiar with seasons and areas they often pursue activities not generally followed by the out-of-state user, such as blue grouse hunting in duck season. Our limited studies in western Montana indicate that the side road attractions and facilities like Rock Creek in Missoula County are used primarily by local Montana people.[3] But the need for privately operated facilities is just as urgent for in-state as for out-of-state travelers.

What can private enterprise do for outdoor recreation? For one thing, the attitudes of people connected with tourist facilities are very important. This summer I did a special land-use study covering five western states for the Bureau of Land Management. It was most gratifying to find that Montana motel operators and service people were probably the friendliest in the five states. In California, where I was raised, the population has risen in 25 years from 7 to 18½ million[4] and the "let's get the tourists' dough" approach of recreation service people has expanded with the population. Some of these 18½ million people will come to Montana for a real vacation. Are we in Montana demonstrating that we welcome them?

How about the "No trespassing—don't bother to ask" signs in parts of the Bitterroot and Madison valleys? Are we perhaps so close to the tremendous scenic backdrop that often we cannot see the wilderness for the access roads? Citizens as well as motel operators owe courtesy to visitors and Montana land owners may not be aware of how their attitudes reflect on our state.

There is also the "universal expert syndrome of recreation land use." Its symptoms are manifested by such expressions as this logically invalid syllogism: "Recreation is primarily hunting and fishing. Everyone here knows a good deal about hunting and fishing. Therefore, everyone here knows a good deal about recreation." This notion leads to oversimplified judgments about recreation activities, land use, and recrea-

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[3]M. B. Price, *User Characteristics and Preferences in Certain Stream-based Campgrounds in Western Montana.* Unpublished Master's thesis, University of Montana, 1965.

[4]Hugo Fisher, "Esthetics and Economics," *Sierra Club Bulletin,* 50:7 (September, 1965), pp. 3-5.

tionists themselves. It takes more than a provincial knowledge of hunting and fishing to make an expert in a recreation business; it takes an insight concerning land attractions, planning ability, strategic location, capital, and human understanding to do a good job, and not all those who go into the business have all these attributes.

What I am trying to say is that outdoor recreation is a highly complex field in which there are very few experts. To get along in this field from the private or public standpoint you must have an understanding of *people*, what they want and why; a knowledge of the land and associated biota, and what the limitations are in its use for recreation and for multiresource uses. You must understand many diverse types of activity (such as tote-goting or water skiing) and also the political and economic realities of your locality. This means that you would not support, as some have suggested, the idea that the Sun River in the Bob Marshall be dammed. Above all, the successful recreation man must recognize that mere promotion of Montana and money spent on advertising the state does not *necessarily* improve tourism. All the advertising in the world will not satisfy the tourist who finds inadequate facilities. And increasing numbers of users may limit the quality of experience and hurt rather than help Montana's tourist business.

How are private owners and operators helping in Montana outdoor recreation? In the forest owner category we find that the Anaconda Forest Products Division of the Anaconda Company and the St. Regis Company (J. Neils Division) have developed campgrounds and picnic facilities on their western Montana lands.[5] The Northern Pacific Railway Company leases recreation land to four ski area operators and for numerous cabin and hunting sites. In some places where their land is mixed with that of public agencies, such as on the Swan State Forest in Lake County, fishing, hunting, hiking, riding, and other activities are allowed. In the Mission Mountains Primitive Area, the Northern Pacific has agreed to negotiate an exchange of its wilderness lands for more suitable timber sites on national forest land.[6]

Perhaps the best-known private activity in Montana relating

[5]Merriam and Price, *op. cit.*

[6]S. G. Merryman, "Outdoor Recreation on Private Lands," a talk presented at the Montana Conservation Council meeting, Butte, April 13, 1962.

to recreation land use is dude ranching. This activity dates back to 1898 and memorable operators like Dick Randall of the OTO Ranch near Gardiner, and it still draws people to numerous ranches in Montana.[7] Ranchers are organized through the Dude Ranchers Association, as are many of the 361 licensed Montana outfitters in the Montana Outfitters and Guides Association. Both of these groups provide valuable services to recreationists, often involving trips into public land for scenic, fishing, and hunting purposes. Dick Hickey of the Diamond L Bar Ranch at Lindbergh Lake, Missoula County, provides excellent lodging facilities and horses for guests, and pack trips to the nearby Mission Mountains on the Flathead National Forest; many others could be cited.

Other services provided for visitors include the hotels and lodges within the national parks and boat marinas on Flathead and other lakes. Private franchise campgrounds of Kampgrounds of America now operate in eight locations in Montana with more to come next year.

There are 21 major ski centers in Montana,[8] all privately operated. Some of these operate under special use permit on public lands and others, like Big Mountain in Flathead County, are located partly on private land and partly on public land. The seven Indian reservations in Montana, private lands operated by the Tribal Council with advice from the Bureau of Indian Affairs, provide various types of recreation facilities, including restaurants, cabins, campgrounds and picnic areas, boat marinas, and so on. Private clubs and organizations, such as the Montana Wilderness Association, offer private recreational opportunities (usually on public lands) for their members through walks and pack trips sponsored and organized by the Association.

There are, of course, problems involved in private sector recreation efforts and there may be obligations of the public agencies to private enterprise that are sometimes not recognized. From the standpoint of the landowner providing outdoor recreation services and land use, there are problems of liability, taxation, costs, and fees. In Montana land owners encouraging use of their land for recreation are liable and may

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[7] L. W. Randall, "The Man Who Put the Dude in Dude Ranching," *Montana, The Magazine of Western History*, Summer 1960, pp. 29-41.

[8] Montana Department of Fish and Game, *Statewide Outdoor Recreation Plan* (draft), September, 1965, pp. 24-32.

be sued for damages if people are hurt on their property.[9] From a tax standpoint land classed for recreation use is sometimes assessed at a higher rate than the same land when it is classed for timber production. If the private owner is providing free recreation use and not using the timber, his taxes and recreation costs may be higher than he can stand on a purely good will or public relations basis. Charges for recreation (such as the Land and Water Conservation sticker charge on some federal lands) may help in allowing private owners to recover some costs through similar fees. (In the past many owners felt they could not charge fees for use when similar public facilities nearby were being offered free to the public.)

There are some owners living next to prime public recreation lands or waters who, for reasons best known to themselves or perhaps because of a difficult relationship with public land managers, will not allow public access across their land. In so doing they often put a larger burden on nearby owners for access or encourage destructive trespass across their own lands.

We hear about the possibilities and successes of small farm and forest picnic or campground enterprises in the more populated eastern states—a good example is the forest picnic business in Ohio. The most successful enterprises are usually characterized by large investment, nearness to metropolitan centers, and location in areas of limited competing public land devellopment.[10] In Montana there may be some opportunities for successful operation of units like KOA, but with the expanding development of public recreation land these private units would be most effective as a complement to and not competitive with public development. For example, a private campground including restaurant and grocery facilities built and operated in Lewis and Clark Caverns State Park or nearby could serve as an excellent complement to that popular area. It may be that in the future many private facilities will be built and operated on a lease basis in public areas where private operation could do a better, more efficient, and profitable job; this in turn would release public funds for administrative and educational functions.

Public agencies such as the National Park Service and the U. S. Forest Service have an important role in Montana's econ-

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[9]Merryman, *op. cit.*

[10]D. R. McCurdy and P. M. Mischon, *A Survey of Ohio's Forest Picnic Business*, U. S. Forest Service, Central States Forest Experiment Station, Research Note #37, (July, 1965).

omy because of their extensive land responsibility and control of major recreation opportunities. In some situations they can be competitive with private industry in providing campgrounds or motels where private efforts could do the same job. The uncertainty over what procedure will be followed regarding contracts, franchise fees, and new developments can be discouraging to private capital investment. Perhaps where there is a possibility of a private development serving as well as a public facility, it would be wise for public officials to encourage the private development over public investment. Particularly would this be the case in the rather delicate environment of some park areas where the encouragement of private developments on the fringes (as at West Yellowstone) may save park congestion and allow for the flexibility of offerings dictated by changing visitor tastes that park environment and public development cannot provide. Both the state and federal agencies should begin work on procedures that would help and encourage private investors of this sort.

There is a growing challenge to the private sector in the Montana recreation picture, particularly in the service areas of dude ranches, campgrounds, hotel, and restaurant services. It is important that private recreational operations complement public operations wherever possible, and conversely that public agencies recognize their cooperative role with industry in recreational development and service to the public. The use of fees for recreation service, tax credits, and improved liability laws are all needed to develop the private provision of recreation service. Associations of private operators, wilderness groups, and the like should be encouraged to develop and maintain standards.

The Montana Statewide Recreation Plan developed by the Montana Fish and Game Department can be most helpful in aiding private and public groups—and the general citizen—toward realization of Montana's recreation potential. The cooperation and ideas of all concerned Montanans are needed and will be most important to the plan's success. Hopefully this plan will pinpoint areas of need in the development of private facilities for outdoor recreation. Cooperation of private owner and investor groups, recreationists, and public officials will be most important at this point in bringing proposed projects to reality. State and university help in economic feasibility and environmental studies, local or state subsidies in the form of reduced taxation or land grants, and federal help in site location and planning will also be important.

Finally, in the hope of keeping the visitor feeling the way John Steinbeck does about Montana, it is important to understand the user, to encourage and help him, give him value received, and provide and maintain a *quality* natural environment to which he will return. For we know that Montana is now what both Texas and California may once have been.

A Primer on State and Local Taxation

JOHN H. WICKS
Assistant Professor of Economics
University of Montana, Missoula

Taxes are continually in the public eye. Almost everybody pays them; virtually every session of every state legislature in the country has them under consideration. Montana is no exception in this respect; here, for instance, there is considerable public discussion that property taxes are "too high." Legislative interest in taxes is indicated by a joint resolution of the 1965 Legislature requesting the Montana Legislative Council to conduct a comprehensive study of Montana taxation.

However, public discussion and legislative consideration of taxes are best accomplished when all people concerned are aware of the basic economics of taxes—that is, the effects that various types of taxes may have on people and businesses. For instance, certain taxes—excise and property taxes, for example—are likely to have an effect on what people purchase. It may be that income taxes have some effect on incentives to work. The various taxes cost some people more than others; for example, auto license fees are largely borne by motorists, property taxes by property owners, and so forth.

Public opinion probably tends to be reflected in legislative action in a state. When this opinion is based on economic knowledge, it is more likely to produce effective legislation than when it is based on myths or suppositions. Likewise, with knowledge the voter becomes more capable of evaluating pronouncements on taxation made by candidates for public office. And, of course, economic knowledge is a desirable attribute for those candidates elected.

Thus, the purpose of this article is to outline briefly the economics of taxation as it applies on the state and local levels in the United States. First, it discusses in general terms the three basic components of the economics of taxation: the effects that taxes may have on the economic decisions of individuals and businesses and thus on the economy, ways to determine who bears the burden of taxation, and the costs involved in the administration of and the compliance with tax laws. Then, the article considers each major kind of tax levied on the state and local level in the nation from the viewpoints of its effects on individual and business decisions, distribution of its burden, and its administrative and compliance costs.

Each term peculiar to the field of public finance or taxation is defined as it is used. Terms defined are italicized when introduced. In general, the terms and analysis presented in this article on state and local taxation apply also to taxation by the federal government.

Economic Analysis and Evaluation of Taxation

Functions of State and Local Taxation

On the state and local level, the basic purpose of taxation is simply to raise the funds to finance governmental expenditures.[1] Taxation at the state and local level as well as the federal level distributes the *burden* of governmental economic activity. Burden (as we use it in this article) refers to the reduction in the private purchasing power possessed by different people as a result of taxation.

This burden is not necessarily borne only by the person who is legally obligated to remit a tax to the government. Such a person is said to bear the *impact* of a tax. He may, however, be able to pass part or all of the tax on to someone else. This process is called *shifting.* For example, at least part of the six cents per gallon tax on gasoline in Montana is passed on to the consumer by the seller. Thus, the gasoline dealer bears the impact of the tax, but he is able to shift its burden to the consumer. When individuals who purchase gasoline have no further place to shift the tax, they are said to bear the *incidence* of the tax.

This discussion of tax burden does not necessarily mean that governmental collection of taxes and subsequent expenditure of funds places an "oppressive load" on the economy. The opposite should be the case. To be justified, each dollar spent

[1]While the federal government can create money and engage in continuing deficit finance, the states lack these powers and are thus more limited in the handling of their financing.

on governmental activities should provide more satisfaction to society than would have been provided had the dollar been left in private hands to be spent. What burden does mean is that dollars spent by state and local governments must be obtained from someone. Each dollar's worth of tax incidence borne by the individual cuts down his own private purchasing power by one dollar. He is thus burdened to the extent that he can buy one dollar less worth of goods than he could if he had not been required to pay the tax. However, if society is not at least as well off by spending that dollar governmentally than it would have been if the taxpayer had been left with his dollar to spend, then the collection and expenditure of that tax dollar results in some social loss.

Tax Equity Considerations

Tax burden is one viewpoint from which taxation can be analyzed. Various taxes affect the purchasing power of individuals and groups differently. For instance, the federal personal income tax bears much more heavily on a bachelor who has an income of $10,000 a year than on a man with seven children who has the same income. A cigarette tax bears quite heavily on cigarette smokers, but leaves nonsmokers unaffected.

Taxes usually redistribute purchasing power. The *distribution of income* or purchasing power refers to the amount of spending power possessed by each individual within an economy. A tax which bears more heavily on one individual than another takes more of the spending power from the one than the other, and quite obviously changes the distribution of the spending power. A legislature determines this distribution by using its own "value judgments," and much of the disagreement over the fairness of taxation has to do with how it affects the distributional pattern.

It is almost universally agreed in our society that taxes should be "fair" or equitable. But there is not this agreement about what kind of taxation is fair and what kind is unfair. If one feels that public policy should be decided on the basis of majority rule, then knowledge of public opinions concerning tax fairness accompanied by knowledge of the distribution of tax burden is vital to those who make tax policy. Where there is considerable disagreement about what is fair, those who make policy need definition of the issues involved.

Let us begin with a value judgment that is very generally accepted: namely, "equals" should be treated equally. For example, most people feel that two individuals, each of whom has the same amounts of income, wealth and financial responsibilities, ought to pay equal amounts in income taxes. This sounds simple and is a good working rule, but to determine who is receiving "equal" treatment and who is not is something of a problem. Probably a number of aspects of our existing tax system violates this "equals should be treated equally" viewpoint. Some of the details of this matter will be mentioned later.

Possible Criteria for Taxation

The tax treatment which should be given to people who are not in equal circumstances finds much less widespread agreement. How should people who differ in income, financial responsibility, wealth or amount of consumption be taxed? The two most commonly suggested criteria are benefits received from governmental services—such as education and highway usage—and ability-to-pay—from such disparate sources as salary, "unearned" money from rental property, unrealized capital gains, or the profits from a farm or business. Clearly there are fertile grounds for disagreement.

We can think of taxes as payments for the benefits received by the public for governmental services. However, to base the distribution of tax burden according to the benefits received by any one person is generally impractical. First, it is impossible to measure the benefit obtained by any one individual from most governmental services, because the benefits from most governmental activities are collected by groups rather than individuals. In fact, this receipt of benefit by groups—often all of society—is the very justification for most governmental activity. Society apparently accepts such activities as being desirable. However, schools, prisons, and welfare, for example, obviously would not be provided in the desired quantity or quality if they were not undertaken governmentally. Imagine national defense organized and paid for by individuals. Even if we could measure and apportion benefits received from governmental services, or if we assumed that the benefits occurred to everyone equally, it still would be difficult to use them as the basis for taxation, for a number of low-income people just could not afford their share. Should only three of a man's seven children go to high school because he can afford just this much tax? There are, however, certain existing taxes which are apparently justified on an individual benefit basis. Probably the best example is a motor vehicle user tax.

An alternate to the benefit basis of taxation is taxation based on an individual's over-all ability-to-pay. One obvious problem here is the determination of what measures should be employed to determine ability. The three major bases which can be taxed are income, consumption, and wealth. The arguments for taxing each are taken up in the next section.

Possible Measures of Ability to Pay Taxes

Income is normally described as the amount of money obtained by an individual (plus any increase—minus any decrease in his wealth position) during a period of time, say, in a year. He can spend this income, save it, or use it to pay taxes. Thus defined, income is clearly the only new source from which a person can buy additional goods or services. It is on this basis that a great many people argue that income is the most appropriate measure of ability-to-pay.

Some people feel that the amount of an individual's consumption expenditure provides a better measure than income of his ability to pay taxes. Since consumption represents what a person takes out of the economy, and income measures what he puts in, a person's income adds nothing to his actual material standard of living until he spends it. However, unspent income does add to his financial security and may give him considerable satisfaction.

Others argue that wealth is the best measure of ability-to-pay. The implications of this viewpoint depend on the definition of wealth which is used. Wealth can be called the total of a person's assets less the amount he owes to others. From a broad viewpoint this should include the present total value of his future earning capacity from work. But this definition is not used for tax purposes in the United States because knowledge of the future would obviously be necessary to estimate a person's future earning capacity. The most commonly used definition of *wealth*, or net worth, is the money value of a person's property less the amount he owes to others. A tax on such a base bears more heavily on a person who waits a significant time between receiving and spending income than it does on a person who has the same total amount of income and spends it over a short period of time. For example, a person who receives and spends $5,000 this year for non-durables will pay no property tax on the $5,000; while a person who receives $5,000 this year and waits three years to spend half of it will pay property tax on that $2,500 for the three years—or will if the tax is accurately administered.

Differing possible measures of ability-to-pay achieve different over-all results. Which yardstick is most equitable? This is a value judgment. Even if general agreement on such a value judgment were available, there would still be the problem of whether the tax should be progressive, proportional, or regressive.

Progressivity, Proportionality, and Regressivity

To gear taxation to economic ability-to-pay, the law must determine the proper relationship between the amount of tax and the tax base. If an individual's economic ability increases more rapidly than the tax base, then a progressive tax is probably in order. A person with a yearly income of $20,000 may be able to afford more than twice as much tax as a person with a $10,000 income. When the percentage of a tax increases in a faster progression than the base taxable amount increases, a tax is called *progressive*. Our federal income tax is a progressive tax. For instance, a tax of $10 on a base of $100 and $30 on a base of $200 is a progressive tax. If it is felt that ability to pay a tax increases at the same rate as the base, then a proportional tax is appropriate. With a *proportional* tax, the base and the amount of tax change by the same percentage. For instance, a tax of $10 on a base of $100 and $20 on a base of $200 would be a proportional tax. A *regressive* tax is technically defined as one in which the percentage increases less rapidly than the base, for example, a tax of $10 on a base of $100 and $15 on a base of $200.

These definitions relate the percentage amount of the tax to the *base* of the tax, which is the dollar amount subject to taxation. Such definitions presume that the base of the tax involved is an appropriate measure of economic ability. In practice, however, most people refer to a tax as being progressive, proportional, or regressive with respect to *income* rather than with respect to the actual base of the tax involved. Defined with respect to income rather than the tax base, a progressive tax is one in which the rate increases more rapidly than income as the taxpayer's income increases; a regressive tax does the opposite. A proportional tax increases at the same rate income increases. This latter system of definitions assumes that income, rather than wealth or consumption, is the appropriate measure of ability-to-pay.

Most people appear to feel that the ability to pay taxes increases more than proportionally as income goes up, and therefore that taxes should be progressive with respect to income.[2] However, such reasoning does not specify how progressive taxes should be nor whether income is the most appropriate base for taxation. If we realize that even these two questions are difficult to solve, it is easy to see that taxes which must be related to *base* dollar amounts rather than income are even more difficult to assess. It is possible, although often difficult, to make taxes other than income taxes progressive.

There are two ways of making a tax progressive with respect to the base of the tax. The first is to make the tax rate progressive; that is, to have the rates increase as the base increases. An example of a tax with progressive rates would be one of 10 percent on the first $1,000 of income and 12 percent on the second $1,000. The other method is to exclude some amount from the tax base. For example, assume that $1,000 of a person's expenditures per year was excluded from a two percent sales tax. Thus, the tax on $1,000 of spending per year would be zero, on $2,000 it would be $20, and on $3,000 it would be $40. These amounts of tax constitute zero percent, one percent, and one and one-third percent of the respective tax bases. In other words, the exemption would make the tax somewhat progressive.

Increasing the rate as the base increases will always make an income tax progressive. However, increasing the rate as the base increases may not result in progressiveness with respect to income if the base of the tax in question is not closely related to income, or if it does not tend to increase as rapidly as income. For example, allowing a taxpayer to purchase a certain amount of cigarettes tax free might not make a cigarette tax progressive in terms of income, for the average low-income person spends a much larger percentage of his income on cigarettes than does the average high-income individual.

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[2]This viewpoint generally reflects the opinion that the satisfaction received by a high-income person from his last dollar of income is less than the satisfaction a lower income person receives from the last dollar of his income. This opinion has often affected tax policy.

Also it is almost impossible for a state to apply progressive rates to taxes on consumption, for it is very difficult to determine who spends how much for what.

The preceding discussion does not imply that unlimited progression is desirable. Neither does it mean that every tax within a system must necessarily be progressive for total taxation to be progressive, especially if the revenues collected from the nonprogressive taxes are comparatively low. For example, (see Table 1) a tax system consisting of an income tax which

Table 1

A HYPOTHETICAL PROGRESSIVE TAX SYSTEM WHICH CONTAINS A REGRESSIVE TAX

Income	Income Tax	Property Tax	Total Taxes	Total Taxes as a Percent of Income
$1,000	$100	$50	$150	15%
2,000	350	80	430	21.5%

averaged $100 for families with $1,000 yearly income, and $350 for families with $2,000 yearly income, and a property tax averaging $50 and $80 respectively for families with these incomes could still be called progressive. If the measure of economic ability is based on income, the property tax is regressive, for it taxes five percent of a $1,000 yearly income but only four percent of a $2,000 income. Nevertheless, the total tax system would be progressive, for the total tax liability of an average $1,000 income family would be 15 percent of income while it would be 21.5 percent for a family with $2,000 in earnings.

Tax Equity in Consumption and Employment

This discussion has described some methods of gearing of taxation to differences in ability-to-pay. However, there are also a number of taxes which bear upon different people differently, but do not reflect variances in ability-to-pay. In fact, the result may be the unequal treatment of equals. Some taxes may discriminate against the purchase of particular products or against certain types of employment.

A tax on the purchase of certain commodities is called a *selective excise* tax. Any such excise tax or system of excise taxes which applies to the purchase of some, but not all, commodities tends to penalize those consumers who want to purchase the taxed commodities. Obviously, they pay a larger amount of tax in proportion to their total consumption expenditures than those people who happen to prefer to spend a relatively larger portion of their income on untaxed items. Many people, including economists, feel that penalizing those who prefer taxed items is unfair, unless there is something bad about the taxed item. To many people, alcoholic beverages are such a commodity. It is often argued that the purchase of certain items is a good measure of ability-to-pay. However, in our society there are very few items which are purchased only by the wealthy, or which are not purchased by some poor people.

Similarly, any tax which imposes a burden on the production of a particular item tends to penalize both the purchasers of that item and those whose livelihood depends on the production of it. For example, a tax on the gross receipts of companies producing phonograph records would result in a higher tax burden on the production of this product than most other commodities. Undoubtedly, at least part of this tax would be shifted on to consumers in the form of higher record prices; thus people who happen to purchase greater than average amounts of records would be penalized. Furthermore, higher prices for records would probably mean fewer purchases. As a result, not only the income of stockholders in recording companies but the income of people working in the recording industry would quite likely be reduced.

Taxes affecting certain types of occupations more heavily than others may also be criticized from an equity viewpoint. The record keeping costs connected with a number of taxes probably affect those who are self-employed much more seriously than other taxpayers, for example; and in some occupations certain costs connected with making a living may not be allowed as deductions from federal income taxation. This is often true in the professions where a high standard of dress and living is necessary to attract clientele, but is not a deductible expense.

While progressivity, regressivity and proportional taxation are important criteria to those paying taxes, tax lawmakers have other vital factors to consider, especially the effects of taxes on people's economic behavior and the administrative and compliance costs of taxes.

Effects on Economic Behavior

The second general viewpoint from which taxation can be meaningfully analyzed is the effect that it may have on economic behavior. A tax may seriously alter consumption patterns, the availability of various types of productive resources, and/or the methods of production used by business firms. Under normal circumstances, economists accept the patterns of consumption and production provided by the price system under free competition as approximating the optimum. Any alteration of these patterns can be thought of as a deviation from the optimum situation. In the following paragraphs, we will analyze these deviations more specifically.

With most goods, the quantity purchased varies inversely with their prices, although this relationship is stronger for some goods than others. Taxes which apply to certain items but not others tend to raise the price of the taxed items higher than the untaxed; and consumers may begin to substitute untaxed items for the taxed. For instance, a selective excise tax which raises the price of photographic film is likely to lead a potential buyer to reduce the amount of film he buys and use the money for some other item, such as picture post cards, a new coat, or a ski trip. Thus, taxation may cause an artificial distortion of consumption and therefore production away from taxed items in favor of nontaxed ones. Economists generally agree that in a free enterprise economy, the absence of such restrictions will result in the production of those goods and services in those quantities which will provide the greatest possible amount of satisfaction to consumers. Therefore alteration of consumption and production patterns as a result of taxation can be assumed to reduce total consumer satisfaction.

The incentives as well as the consumption patterns of individuals may be influenced by taxation. A tax might influence a person to work less, for taxes reduce spending power, but may not affect the enjoyment one may receive from leisure. On the other hand, if a given standard of living were important to him a higher tax might make him work longer; he would have to work longer to be able to purchase a given amount of goods. If certain types of employment were taxed more heavily than others, a person might be influenced to work in less heavily taxed occupations. For instance, if self-employed people were not allowed to deduct all legitimate expenses from their income tax base, some people might be influenced to work for someone else rather than go into business for themselves. The same could be the case with respect to various types of business enterprise. In the same way a tax may encourage or discourage the taking of risks. For instance, the federal personal income tax gives favorable treatment to capital gains income, a type of income that often occurs as a result of risky investment. Thus risky investments likely to result in capital gains are encouraged, as are investments in oil industries where the depletion allowance provides a means of earning tax-free income.

Taxation may also affect production methods used by business firms. Heavily taxed methods are likely to be discouraged. For instance, if the property taxes on capital goods and inventories are very high, but payroll taxes are relatively low, the use of more workers and less capital equipment is likely to be favored. Since business firms wish to be profitable, it can be expected that they would normally use the most efficient production methods in the absence of taxation. Thus, any influencing of the method of production by taxation probably reduces over-all efficiency.

These possible effects of taxation on consumption patterns, incentives, or production methods are often referred to as the *allocative* aspects of taxation, for they influence allocation of resources in production. Allocation of resources refers to the relative quantities of labor, natural resources and capital goods used to produce various different items in an economy. Thus it is plain that tax laws must take this factor into account if they are to promote, rather than hinder, effective operation of the economy.

Administrative and Compliance Costs

The remaining major aspect of taxation to be considered is its administrative and compliance costs. *Administrative costs* are those costs borne by governments to levy and collect taxes. They vary from tax to tax, and some taxes are not feasible because of the administrative costs they would entail. For example, state taxation of intangible personal property (such as stocks and bonds) is very expensive to administer with any degree of accuracy. In fact, it may be impossible for a state or local government to do without the use of complex federal law enforcement facilities to provide certain information. Even then it would be very costly. On the other hand, the administration of a cigarette tax levied at the wholesale level is quite economical.

Compliance costs are those costs, both in time and money, borne by taxpayers to keep necessary records for taxation and actually to remit taxes to government. These costs are quite significant, for instance, for many personal income taxpayers. Property tax compliance costs are generally low. Since both of these costs involve the use of productive resources, mainly human labor (whether done by paid tax accountants or the time and energies of individual taxpayers), they could be thought of as allocative effects of taxation, but normally they are considered separately.

Adequate expenditures for administration are necessary if evasion is to be prevented. Evasion is undesirable both from a fairness viewpoint and because it causes loss of governmental revenue. However, it is generally accepted that administration and compliance costs should be kept as low as compatible with good administration, because such costs produce no corresponding happiness to society. Tax collection is seldom thought of as a beneficial governmental service, nor is anyone made happy when it takes him a long time to fill out his personal income tax return.

* * *

As we have pointed out, the three basic viewpoints from which taxation can be analyzed are equity considerations, effects on economic behavior, and administrative and compliance costs. Equity refers to the fairness with which the tax burden is distributed. Changes in economic behavior (sometimes called just economic effects) refer to the effects that taxation may have on consumption patterns, availability of various types of productive resources, and methods of production. Administrative and compliance costs are those costs borne by governments and individuals respectively to collect and pay taxes.

Review of Major Taxes Levied in the United States

The major taxes collected by state and local governments in the United States are property, personal income, corporate income, general retail sales, selective excise, highway user taxes, and death duties. This section briefly reviews the nature of each of these taxes in terms of equity, economic effects, and administration and compliance costs.

Property Taxation

Property taxation was at one time the source of most state and local governmental revenue, and still provides about 90 percent of the revenues of local governments. While administrative costs of property taxation are not especially high, the actual administration of the tax usually produces considerable inequity because of difficulty in accurately assessing the taxable value of property. The base of this tax is the assessed value of property, which is normally supposed to be equal or proportional to current actual market value.[3] However, different types of property and different parcels of the same type of property are often assessed at different percentages of their actual value. For example, if two adjacent houses have the same current market value, but one is assessed at 100 percent and the other at only 50 percent, then the owner of the former will pay twice as much tax as the owner of the latter even though the houses are worth exactly the same.

From an equity viewpoint, there is also a question whether even accurately assessed property provides a close measure of ability-to-pay. The value of a person's property may be a measure of the benefit he receives from certain local governmental services, such as police and fire protection, but such services are only a small portion of the total. Financing the remaining services with property levies tends to distribute tax burden in a capricious manner. The amount of a person's property is often not closely related to his income. A person with six children is likely to have a fairly large house, but may not have a large income. Furthermore, the house may be highly mortgaged. Even so the property tax would apply to the full value of the home. On the other hand a person with a large income—and resulting economic ability—may spend most of it for services and other non-durables and thus pay little property tax.

[3]Recent court decisions in some states have defended the proposition that assessed value should equal market value. In other states, the judicial rule is that assessments need be only the same percentage of true value for various items and parcels of property. In Montana, the actual property tax base is a percentage of assessed valuation. This percentage varies according to type of property.

From an economic effects viewpoint, property taxation probably tends to discourage the purchase of durables as compared with nondurables, since nondurables are not included within the tax base, whereas durables, such as automobiles and houses, are. Thus a property tax makes durables relatively more expensive as compared with other goods. The same type of situation holds true with those methods requiring large amounts of capital investment, called capital-intensive production methods. Property taxation does not apply to the use of labor, whereas it does apply to buildings, machinery, and inventories. Therefore, production methods using relatively large quantities of taxed items become more expensive and are discouraged as a result of the property tax. Taxation of land itself, however, may encourage land use and affect the nature of its use.

In order to comply with the laws of property taxation, a taxpayer normally needs only to pay the bill submitted to him by the county treasurer. Only when a person desires to appeal the valuation of his property for tax purposes is compliance likely to take much time or money. Therefore, compliance costs of property taxation may be said to be low.

Income Taxation

Since the base of the personal income tax is each individual's yearly net, or taxable, income, it is easy to make the tax progressive with respect to income. This can be done by the use of exemptions or progressive rates. For example, the first $1,000 of income may be exempted; or, alternatively, a rate of 10 percent on the first $1,000 of income and 15 percent on the second $1,000 may be levied; still a third possibility is to employ both devices simultaneously. Since it is quite generally agreed that economic ability to pay taxes increases progressively as individual income goes up, the ease with which the tax can be made progressive is probably one reason it is so widely accepted as a tax. Certain provisions found in the federal and some state income taxes, such as the favorable treatment given to capital gains and the depletion allowance structure, do benefit some individuals much more than others and, therefore, are often questioned from a fairness or equity viewpoint. The tax may have some effect on incentives to work. There may be a number of other changes to economic behavior resulting from the tax. For example, the fact that the federal government does not tax the interest on state and local government bonds lowers the interest rate these governments must pay and may consequently encourage borrowing by them. The deductibility of business expenses may encourage the consumption of high-priced restaurant meals. Income tax compliance costs are quite high for business firms which must withhold taxes and submit them and information to the government, and for individuals who must compute and report their income. In addition, administration of certain aspects of the tax is difficult.

It is difficult to analyze the equity of the corporation income tax since accurate information on certain factors is not yet available to economists. For example, we do not know with certainty if the corporate tax is shifted on to consumers in the form of higher prices. If the tax is shifted, it becomes a kind of sales tax which applies more heavily to some commodities than others, because corporate profits as a percentage of sales are higher in some industries than others. Such factors could mean that the tax tends to discriminate against consumption preferences and alter consumption patterns. If the tax is not shifted, its burden falls on those who were stockholders at the time the tax was imposed or increased. An argument made for the corporate income tax on the state level is that corporations should pay something for their state-granted privilege for existing as a legal entity, and income is the best measure of the benefit their franchise gives them. The tax *may* reduce business investment, both by reducing the rate of return after tax on a possible investment project and by reducing the amount of funds available for corporate retained earnings; but this again is a factor almost impossible to analyze (except by a crystal ball).

Sales, Excise, and Motor Vehicle User Taxation

A general sales tax is an excise tax levied at a uniform rate on the sale of all or most commodities or services sold at the retail level. Normally, such a tax is somewhat regressive because low-income families, on the average, spend a higher *percentage* of their income for consumption goods sold at retail than do high-income families. Granting each family a certain amount of tax-free expenditure or exempting food from taxation, or both, can eliminate this regressivity. Exempting food from taxation tends to eliminate regressivity because low-income families spend a much larger percentage of their income on food than do high-income families, but this exemption can be held to favor food producers to the detriment of other industries and connoisseurs of fine food as compared with other people. Subjecting things purchased by business firms to a sales tax could encourage the firms to utilize production methods using small amounts of taxed items, for example capital goods, and perhaps to substitute additional labor in their place. The compliance cost of a sales tax to retailers amounts to at least several percent of the amount of the tax, and unless retailers can completely shift the tax to consumers, it will be an inequitable burden to them. The more things included in the base of such a tax, the lower its administrative and compliance costs are likely to be.

Selective excise taxes are levies on the sale of particular commodities or services. There are two distinct types of them used on the state level, sumptuary taxes and so-called luxury taxes. (Some economists consider motor vehicle user taxes also to be excises. However, they are probably more meaningfully considered as a separate type of tax.) *Sumptuary excises* are taxes on goods presumed to be socially harmful. Liquor taxation is probably the best example. The consumption of liquor provides costs to society which are not borne either by the sellers or the producers—for instance, additional law enforcement costs. The major argument for the tax is that it compensates society for these costs; and in addition, the tax might lower the consumption of liquor and therefore the costs. *Luxury excises* are taxes on consumer goods such as furs, perfumes, or imported food items which only wealthy people are presumed to be able to buy. The trouble is that there are not very many such goods, and sometimes even poor people buy them. Furthermore, the tax penalizes those who prefer the taxed commodities or who work in the industries producing them. When a tax raises the price of certain items, it tends to distort consumption patterns by discouraging the buying of one type of goods as opposed to other commodities.

Death Duties and Other Taxation

Death duties include *estate taxes,* which are levies on the net worth of the deceased, *inheritance taxes,* which are levies on the amount received by those receiving the bequests, and *gift taxes,* which attempt to eliminate tax evasion by people who give their wealth away before death. The most often stated arguments for such taxation are that death bequests improve the financial position of the beneficiaries and that taxation of such bequests helps to break up large accumulations of wealth. However, in some instances a death bequest represents no increase in the economic well-being of the donee, as in the case of a widow—nor do these taxes take account of the economic situation of the beneficiary. (Paupers are taxed the same as legatees or inheritors with a million dollars a year of other income). Death duties do not have an apparent major impact on economic behavior, although they may encourage such things as the purchase of additional life insurance or the keeping of a family-held business in more liquid form than would otherwise be the case. And they do, certainly, encourage the use of skilled lawyers to write wills minimizing the amount of liability, thus contributing significantly to the compliance cost of the tax.

The foregoing are the major state and local taxes found in the United States. There are others. For example, *license fees* are generally charges for a governmentally granted privilege or to cover the cost of regulation of the activity involved. *Severance taxes* are levied according to the amount of exhaustible mineral resources extracted from nature. The argument made for severance taxes is that mineral extraction reduces the natural wealth of a state, and therefore the public ought to be compensated for this reduction. A *gross receipts tax* is a tax on the gross sales of business firms. Such a tax is not closely related to ability-to-pay, and strongly favors *vertical integration* of firms. Vertical integration refers to the ownership of a number of different stages in the production process by one firm—for instance, manufacturing, distribution, and retailing. In a vertically integrated firm, the sales from the manufacturer to the wholesaler, and the wholesaler to the retailer would be eliminated, and thus the tax liability would be reduced. A *value-added tax* is a tax on the difference between the sales of a firm and the amounts that this firm paid to other firms. That is, if a Montana firm produced automobile tires and had a monopoly on tire sales in this state, then the results of a value-added tax on this firm would be approximately the same as a retail sales tax. However, if the products of other firms competed with this firm, the tax would erode the competitive condition of the taxed firm and bear little relation to ability-to-pay.

* * *

The above tax-by-tax discussion is only a brief summary of currently available facts and analysis. However, there is also a number of questions concerning taxation yet unanswered by economists which should probably be mentioned. We lack *empirical data*—that is, actual facts—concerning the extent of tax shifting, the degree of various economic effects of taxes, and the compliance costs of particular taxes. Earlier we stated that each tax may be evaluated from the viewpoints of equity, economic effects, and administrative and compliance costs. These characteristics are often interrelated in ways that cause problems. A tax which may be desirable from one viewpoint may be objectionable from another. For example, an income basis of taxation may be deemed to be quite fair to the taxpayer, but it may have some undesirable over-all economic characteristics and be somewhat hard to comply with. In evaluating a tax, all such factors should be weighed, but the degree of weight is an unanswered question; indeed, it is the value judgment that produces the best taxation legislation.

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Vol. 3, No. 4, Fall 1965

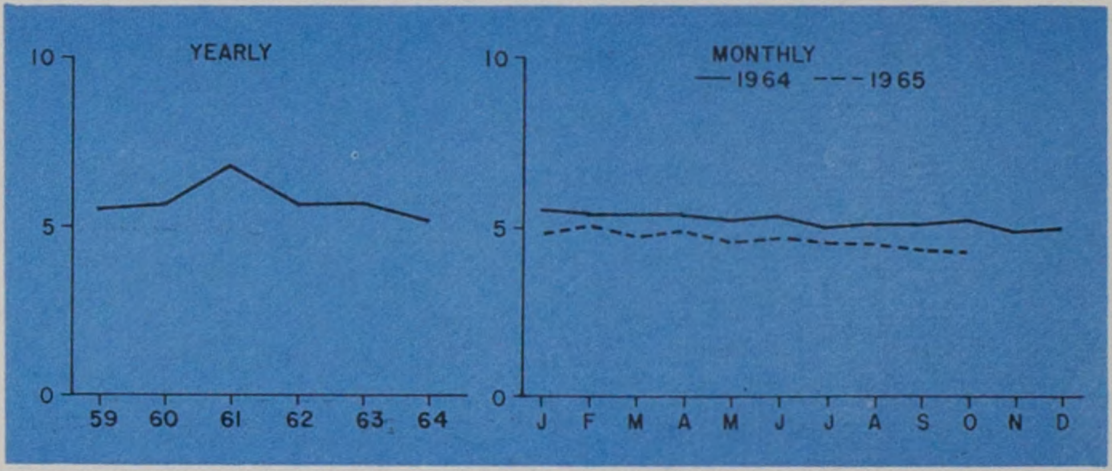
Vol. 4, No. 1, Winter 1966

The *Montana Business Quarterly* is published by the Bureau of Business and Economic Research, University of Montana, Missoula, Montana, 59801. Yearly subscription, $4.00; $7.00 for two years; $10.00 for three years; single issues, $1.00.

National Indicators —

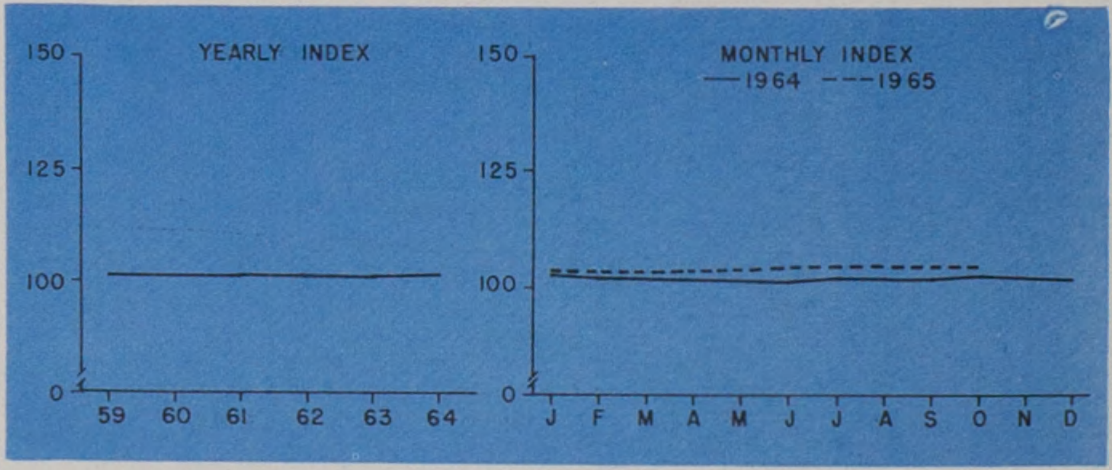
UNEMPLOYMENT AS % OF THE LABOR FORCE

Seasonally adjusted



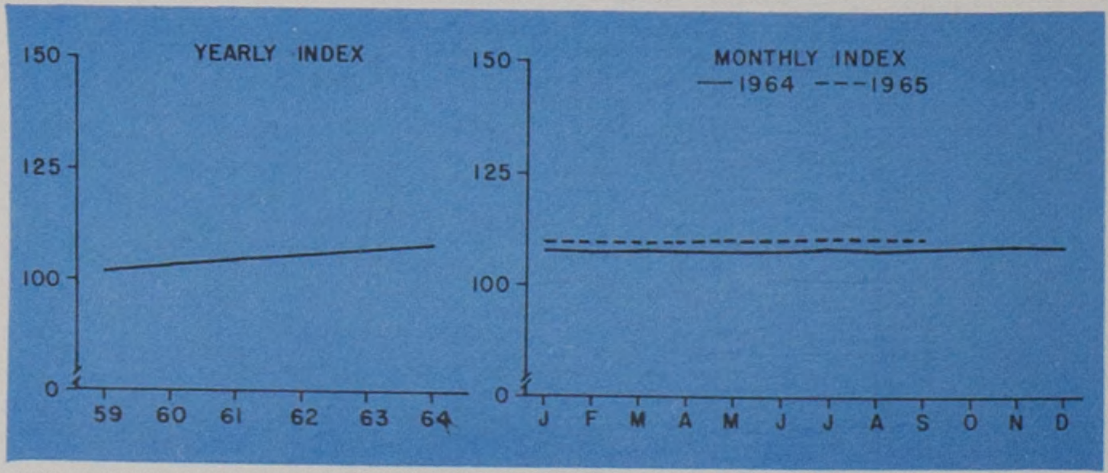
WHOLESALE PRICE INDEX

1957-59 = 100



CONSUMER PRICE INDEX

1957-59 = 100



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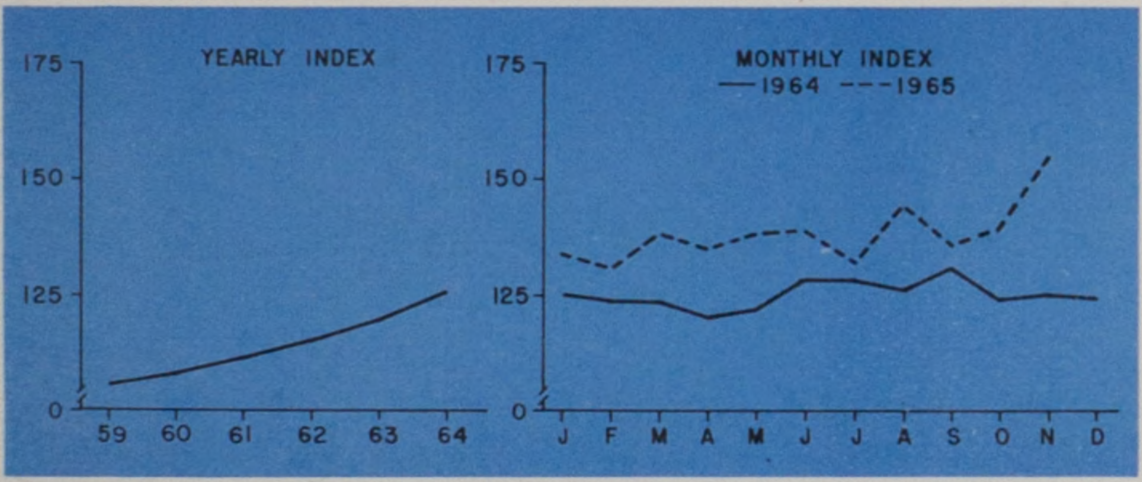
1957-59 = 100 — Seasonally adjusted



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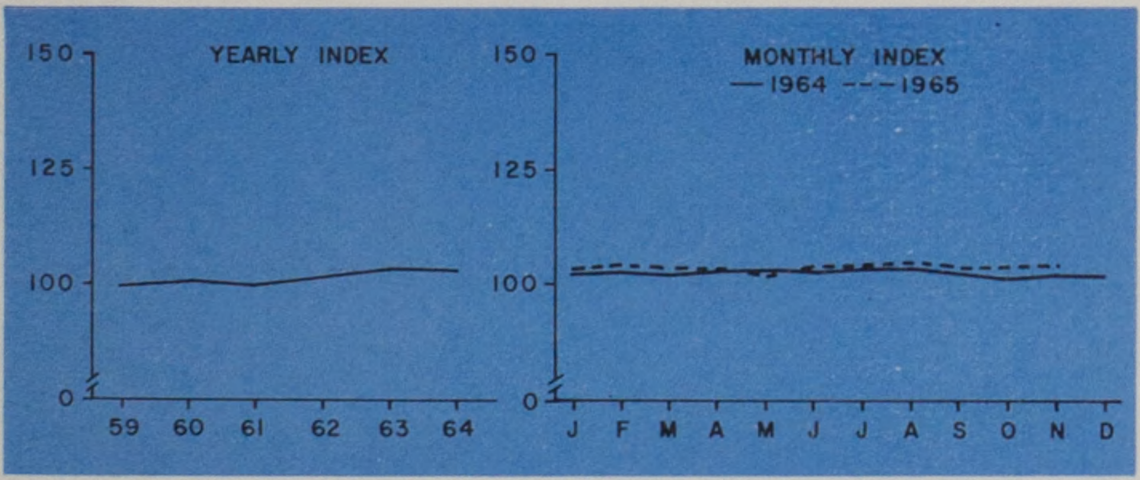
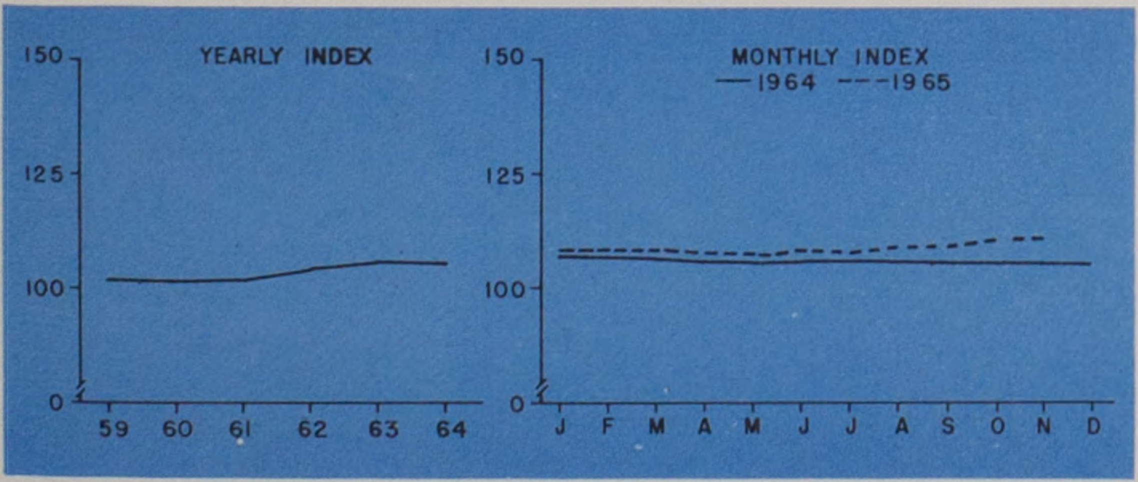
1957-59 = 100 — Seasonally adjusted



NONAGRICULTURAL EMPLOYMENT

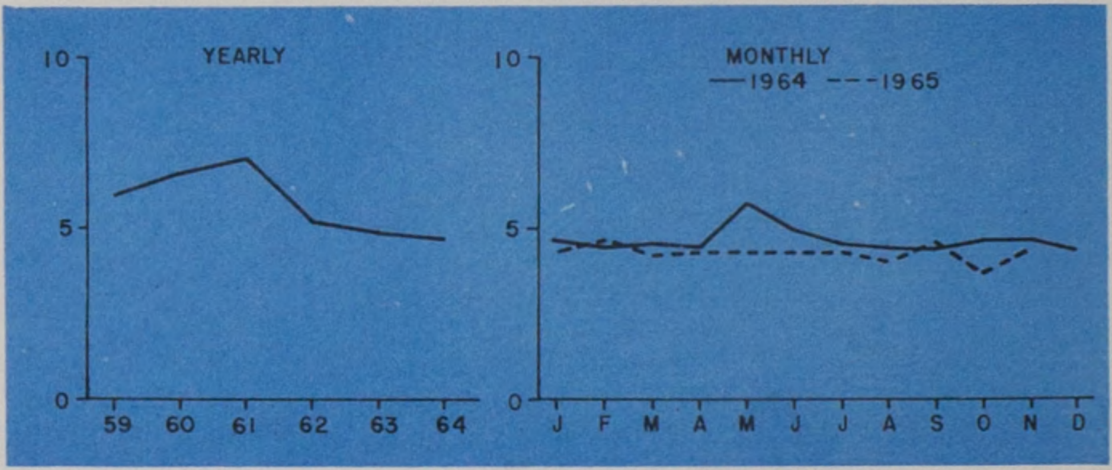
1957-59 = 100 — Seasonally adjusted



Montana Indicators —

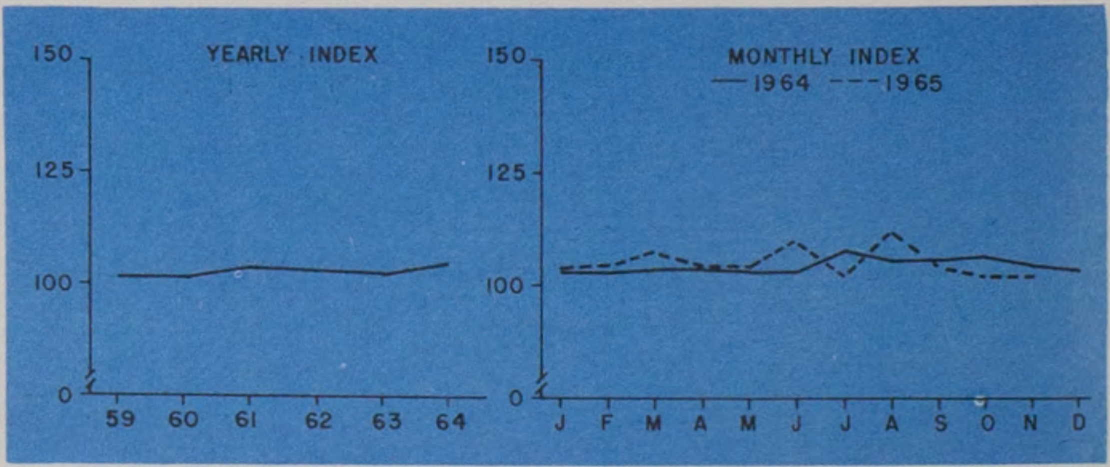
UNEMPLOYMENT AS % OF THE LABOR FORCE

Seasonally adjusted



AVERAGE WEEKLY HOURS, MANUFACTURING

1957-59 = 100 — Seasonally adjusted



SOURCES OF DATA

National Indicators

Gross national product: U. S. Department of Commerce, Office of Business Economics.

Disposable personal income: U. S. Department of Commerce, Office of Business Economics.

Industrial production: Board of Governors of the Federal Reserve System.

Unemployment as a percent of the labor force: U. S. Department of Labor, Bureau of Labor Statistics.

Wholesale price index: U. S. Department of Labor, Bureau of Labor Statistics.

Consumer price index: U. S. Department of Labor, Bureau of Labor Statistics.

Montana Indicators

Bank debits: Federal Reserve Bank of Minneapolis.

Employed work force: Unemployment Compensation Commission of Montana, in cooperation with the U. S. Department of Labor, Bureau of Labor Statistics. Excludes military.

Nonagricultural employment: Unemployment Compensation Commission of Montana, in cooperation with the U. S. Department of Labor, Bureau of Labor Statistics. Wage and salary workers only.

Unemployment as a percent of the labor force: Unemployment Compensation Commission of Montana, in cooperation with the U. S. Department of Labor, Bureau of Labor Statistics.

Average weekly hours in manufacturing industries: Unemployment Compensation Commission of Montana in cooperation with the U. S. Department of Labor, Bureau of Labor Statistics.

Problems in Land Use

One relationship alone, even if there were no others, guarantees that problems regarding land use will develop: there is a scarcity of many types of land which must serve a variety of purposes. Under very broad headings we may classify land as follows: urban, rural (agriculture production as well as low density residential use), forests, wildlife production, mineral production, water storage and regulation, grazing, recreation, and transportation. Examining more closely just the first of these, urban lands have many sub-classifications: residential, industrial, commercial, parks and playgrounds, public lands, railroads and airports, streets, and so on. Under residential types we might list: single-family dwellings, duplexes, apartments, trailer courts, cooperatives, condominiums, retirement villages, and so on. Under the single-family heading we can identify many illustrative uses including the dwelling area, walks, outdoor living (patio and children's game areas), driveways, garages, trash disposal sites, flower and vegetable gardens, and storage facilities. A high degree of complexity, interdependence, and potential competition or conflict of use is thus apparent.

Table 1 illustrates some of the compatibility relationships between the major classifications and underlines the fact that there are limited opportunities for multiple uses on common areas.

Another factor which is a source of constant contention is change—changes of technology, of market opportunity, of intensive and extensive utilization, of financial capacity, of taste, and of available time. Individual and society's preference schedules are in constant flux; new priorities put pressure on present land uses, ultimately forcing some degree of adjustment and accommodation. New rapid transit systems, or new freeway construction or paralyzing traffic jams, and the debates on each alternative, are representative of the contest over priorities.

A final factor which produces problems is ignorance and/or poor planning. Decisions are made from faulty premises which, in retrospect, turn out to have been improper. Even when reasonably complete and accurate data are available, poor interpretations of them may be made.

Some would add willful obstructionism to the list. Possibly,

TABLE 1

PHYSICAL COMPATABILITY (ON COMMON AREAS) WITH SECONDARY USE FOR:[1]

Primary land use	Urban uses	Recreation	Agriculture	Forestry	Grazing	Transport	Reservoirs and water management	Wildlife	Mineral production
Urban	complete	high for city parks; zero for others	none	none	none	very poor, except city streets	none	very poor	very poor
Recreation	none	complete	none	poor to moderate	very poor to none	very poor	poor	fairly high	very poor
Agriculture	none	very poor	complete	zero	zero	zero	very poor	poor to moderate	poor
Forestry	none	high	none	complete	variable—none to fairly high	zero	zero	high	poor to moderate
Grazing	none	high	none	usually very poor	complete	zero	poor to fairly high	high	poor to high
Transport	none	none directly; incidental on rights-of-way	none	none	none	complete	none	none	none
Reservoirs and water management	none	poor to high	very poor	very poor	poor to moderate	none	complete	poor to high	very poor
Wildlife	none	high	very poor	moderate	moderate	none	poor	complete	very poor
Mineral production	none	poor	poor	fair	fair to moderate	fair	poor	poor to fair	complete

[1]These are uses on identical or common areas.

Marion Clawson, R. B. Held, Charles H. Stoddard, *Land for the Future*, published for Resources for the Future, Inc. (Baltimore, The Johns Hopkins' Press, 1960), p. 449.

in isolated cases, this may be a factor which occurs independently of those cited. However, more often it seems to be no more than a partisan's assessment of a disputant's behavior. We might expect those facing disenfranchisement to resist; it would merely be another phase of competition which is, after all, the name of the game.

What is the evidence of problems in land use? Scarcely a single community in this country can contend that it has no land use conflicts. Traffic congestion, massive auto parking structures, slum areas and urban renewal programs, stacks of new legislation at all levels of government, barren, unused land, annexation struggles, tax assessment controversies, new garbage and sewage disposal plants, and a host of others are evidence of conflicts.

Evidence of profligate disregard of conservation principles is at hand for anyone to see. Extensive areas devoid of plant and grass cover, high silt and pollutant loads in our streams, water shortages, the disappearance of selected plant and animal species, and the low productivity of many cut-over forest lands are poignant documentation of earlier mismanagement. These areas and situations are problems at present because, even though the resources might have only marginal economic value, their potential value inevitably will rise. Any realization of future values will involve the commitment of money and technical skills to rebuild or to replace the resources lost. Rehabilitation and research expenditures made today and in the future, the low productivity of lands and the poor products and services from them, and numerous "Appalachian-type" economic regions, are the price society is paying for planning errors (or individual self-interest planning) and short-sighted exploitation.

New York City, perennially facing water crises, steadfastly refuses to take water from Lake Ontario or from the Hudson River; instead it chooses to dam the trout streams and flood the best dairy lands of the upstate counties. The upper-midwest and New England forests could have been managed to produce a steady stream of product and service benefits and still have retained their mixed-age and mixed-species character—a resource-mix which no longer exists. One cannot go back and re-do the past when decisions have been preempted by short-run interests. The future opportunity to achieve more than a single use from our land resources depends upon our willingness and skill in management. Such benefits require purposeful management which is simply another expression meaning planning.

The Need For Planning

Even though our behavior would belie it, the truth is that America's physical resources are not limitless. Based on current growth rates, industrial and household water needs will double in roughly fifteen years. Metropolitan areas are doubling, tripling, and quadrupling homes and businesses and public facilities. This encroachment on agricultural lands amounts to a displacement of nearly two million farm acres annually. Ever greater quantities of raw materials and agricultural products are necessary to feed our industrial machines and our growing population. Yet, at the same time, we need more acres for recreation. Our electric power consumption and output doubles about every ten years; hydro-electric projects preempt areas for many years and often prevent other uses. Many land uses, not compatible with other functions, are demanding more space annually and yet they are essentially unproductive. Residential parking (just the land under the car itself, not counting street parking, driveways, et cetera) in the United States by the year 2000 will require an area roughly the size of Glacier National Park; over a quarter of a million acres of land will have to be withdrawn from other uses just to bury those of us alive today.

To many people, it is a paradox that in the "space age" so many crucial problems on the earth's surface are really problems of space management—where to put machinery, transportation facilities, airports, people, defense plants, obnoxious firms, and so on. These fundamental problems will worsen each year, and new ones develop, unless there is cooperative and intelligent planning effort to reconcile our differences in objectives and values.

With hundreds of land uses, with thousands of individual objectives, with countless types and rates of change of land use, with unlimited variations of land quality and location—the number of possible outcomes, by the random interaction of only these variables, is staggering. Actually, there are several trillion potential outcomes; and most of them would be unacceptable to us. The odds that the randomly obtained result, at the end of any time period, would be to our liking are infinitesimally low. Such important matters ought not to be left to chance.

Much more study and research are required, and are in process, before we can truly comprehend all the dimensions of the complex problems we face in land use. One would expect that such new understandings would be incorporated in the resource problem-solving process and not ignored. If the people making these decisions assess the probable consequences of new concepts and technologies, they are engaged, however purposefully, in a planning process. When we employ standards to accept or reject alternatives for even the most restrictive land-use program, we are acting with a purpose, which is another definition of planning.

The questions raised here then are not concerned with whether to plan land use or not but rather (1) whether planning should be done in this fragmented fashion and, (2) whether only economic values should be considered in making choices.

The answer to both questions, for major policy decisions, is negative. Optimum national land usage is most unlikely when it is the outcome of individual, partisan economic interests. Also, individuals struggling bitterly for survival from particular land uses have neither the talent nor the financial capacity to behave altruistically. To preserve our power in world affairs, to increase our economic, political, social, and military security, to preserve or enhance total land-use values, to conserve our public resources—these necessitate a broader understanding of purpose than many should be expected to possess.

To repeat, the question is not whether to plan or not. Part of our problem today is that nearly everybody is engaged in planning—more than can be helpful. We are managing all our resources now, however well or badly, and this we must continue to do. Planning is simply one of the functions of management. But individual plans are seldom conceived with national or public welfare objectives in mind. The real issue becomes how to plan effectively to meet these broad responsibilities.

In Dr. Clark's article (where, except for the last paragraph, his position is contrary to his own convictions) the implicit argument is for no planning, since so much of it is poor. But no one is arguing *for* poor planning, even though poor planning is inevitable on occasion for the many reasons already discussed. His position is analogous to Adam Smith's "invisible hand" of the market place which argued that national economic goals were best, and automatically obtained when businessmen were free of all restraints. This premise has long since been discarded as meaningful or workable under complex modern conditions. As a nation we insist that entrepreneurs may not sell poisons or other harmful products (without close regulation), or misrepresent goods by fraudulent claims, or traffic in drugs, or employ child labor, or permit work to be performed without proper safety precautions. The business community and its operations have been substantially modified by restrictions designed to promote the general welfare. Increasingly, firms and industries have sought varied types of controls or regulations to preserve fair competition. The petroleum industry is a case in point; since the ownership of the resource is not identical with oil pool areas, to prevent wasteful duplication of wells and losses of underground deposits, controls were requested and accepted.

To do an effective job of planning land uses so that maximum benefits are received over time, we urgently need informed and responsible people. Conflicts will not disappear simply by getting agreement on purposes, although this will help. The error is to view controversies solely in terms of technology or of cost. It must be understood that people are the basis of land problems—the land surface may be the battleground but it is neutral.

Unfortunately, many of those who lose by mismanagement are not compensated. The destroyer of nature's beauty or of land's productivity seldom pays a society for its loss of values. It is futile to dissipate our energies bemoaning this fact or yearning for the "good old days" which were in fact not as good as wishful thinking has made them. We have made so many changes in our physical environment that we have no choice now but to manage it wisely for the future.

What Dr. Clark has emphasized in his paper is that good planning is extremely difficult. While plans made now for the future may turn out less than perfect, splintered planning is bound to be worse. We cannot afford to pay the exorbitant price, economically or socially, of the needless and much greater resource losses that would be attributable to the failure to plan. In a recent speech Mr. Arjay Miller, President of the Ford Motor Company, summed the issue very succinctly:[2]

> We do have an effective way to make sure that our [private] economy responds efficiently to the wants of the public. This is to rely on free private enterprise—the play of competitive forces in the marketplace. The consumers decide what should be produced. Their decisions result in rewards for efficiency—and penalties for waste. As the Russians are discovering, there is no substitute for the decision of the consumer, even in a centrally planned economy.
>
> Many universal needs, however, are not satisfied by the marketplace in our own society. Obviously, the market cannot provide national defense or law enforcement. The market has no effective way of dealing with such by-products of modern life as air and water pollution or traffic congestion. The market cannot provide adequately for highways and schools. Government has to fill these needs . . . .
>
> Demands on government for public services and facilities are growing steadily as our population increases, and as society becomes more urban and complex. Government will continue to grow, and so will its expenditures. This means that the quality of government decisions and the efficiency of government operations will become more and more important to our well-being. . . .
>
> We should support the development of such [problem-solving] techniques by government, I am convinced, because this will help make government more efficient in supplying the goods and services it must provide.
>
> The total purpose is more efficient organization in both private and public sectors for the betterment of society. The more effectively we can use the tools of modern technology and modern decision-making, the greater will be our power to improve the conditions of people in all levels of society.

This statement, from the head of one of the world's largest private companies, cannot be dismissed airily. Mr. Miller knows the value of planning as a factor in the success his company has enjoyed despite complexity, risk and uncertainty. He is unwilling to settle for less in the public sector.

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[2]Quoted from a speech given before the Economic Club of Detroit, October 4, 1965.

Business Ethics: A Problem for Society

LAWRENCE J. HUNT
Assistant Professor of Business Administration
University of Montana, Missoula

Does business today need a new code of ethics? Where do you begin to restore business ethics? How do you enforce a code of business ethics? These are questions being asked of business administration graduate students at the University of Montana. These questions are not necessarily raised in order to have the students come up with specific answers, but to encourage them to take serious notice of the problems in ethics which trouble the business community today. The questioning is done not in a spirit of religious revival but from a pragmatic viewpoint: the belief that morality in business is good for our total society. These graduate students, who have already shown superior ability, will one day be leaders in the business community and will be in a position to influence in some way the practice of ethics in business.

Perhaps the impetus for change in business ethics should not come from the educational sector of society. But where else can changes of this kind arise spontaneously? Ethical practices and codes of business ethics can evolve out of the business community, and sometimes they do. There are a number of business groups such as accountants, real estate and investment brokers, and life insurance underwriters, to name a few, who have recognized the problem of business ethics and have taken steps in their specific fields to establish workable codes of ethical practices. These are certainly impressive steps in the direction of ethics in business, but there still remain many segments of the business community without tangible ethical guidelines except for those restraints imposed upon them by the government and the value system of the total society. Maybe some of our graduate students who have been concerned with ethics will enter these segments of the business world.

There are a number of reasons why the business community at large should be concerned about the need of ethical guidelines for the conduct of business. Some of the causes touched on here are:

1. Society's skepticism regarding ethical practices in business, and society's general hostility toward business.
2. The trend toward greater governmental control.
3. The social problems arising out of automation and the increased complexity of business.
4. The problems arising out of population increase and the resulting increased complexity of total society.
5. The general belief among business leaders that a code of business ethics is needed.
6. The separation of religion and business.

These are only some of the areas which affect ethics—areas in which the business community should be concerned. Perhaps if the first problem given could be satisfactorily acted upon, the rest of the list would automatically correct itself. But in order to brighten the tarnished image of business, steps of an unusual nature must be taken in the moral order of the business community. Not only would business have to establish rigid codes of ethics, but it would have to enforce them and educate the public as to what it was doing. Indeed, great attention must be given to public opinion if business is to wipe out the stains left by the Billy Sol Esteses, the Bobby Bakers, the electric industry price fixings, the Texas Gulf Sulphur scandal, and the McKesson-Robbins fraud, to name a few. These publicized cases have given the public most uncomplimentary glimpses of business in operation.

Business in general should not, of course, be condemned by incidents such as these, but unfortunately business has a lengthy history of such happenings. Long before Jesus threw the money changers out of the temple, the status of the businessman has been low. The Egyptians, the Athenian and Spartan Greeks, and the Romans all regarded trade as being associated with dishonor. In Egypt and Athens a trader could only break into political circles through owning land, and Plato would have had the trader live apart from the aristocracy; he was not to share in the pure ideal of life of the ruling class. Rome scorned trade and tried to keep the trader from advance-ment to power and after the collapse of the Empire the Roman Church took up the task of subduing the profit-maker.[1]

To a certain extent this traditional low status concept of the businessman has carried over into modern times. Society still views the businessman with a jaundiced eye, and to a large extent the businessman has only himself to blame. He has done little about elevating his status. As is pointed out in the following excerpt from Miriam Beard's history of business:

> Many of the professions have acquired a respectable patina through reinterpretation of the past. Thus physicians are now wrapped in such dignity that the public forgets how recently they occupied the status of barbers. Lawyers have climbed from the family-solicitor relation to a solemn eminence as legal history was composed; art history has made the artist a legitimate successor of the bards and "old masters." Even the poor montebank, by stepping on the pedestal of the past, has increased his stature. Not so the business man; he still struggles on, unfathered and unhallowed, lacking annals and allegories, a mellowed image, a shell of mythos in which to creep. He is his own ancestor and, usually his memory does not reach back even to the last business crisis.[2]

It is unfortunate that the businessman has been saddled with this image of dishonor because he has contributed much to society; in fact, in modern industrialism, society could not do without him. Yet, though he has contributed much, he has not made enough effort to notify his fellow man of his contribution. This may be looked on as a high form of humility, but most people feel that the business community's contribution has been made not for the benefit of society but for the sole purpose of profit gain and that any benefits to society have been side effects.

The strange thing about this hostility toward profit is that it appears to be strongest among those who are direct beneficiaries—the working man. In rejecting the profit motive the worker, and society in general, rejects the very principle on which the capitalistic society must be based. This hostility may spring from ignorance of the facts: for example, a great majority of the population thinks that profits are many times larger than wages, where in fact total profits are seldom

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[1]Miriam Beard, *A History of Business, Vol. I,* (Ann Arbor, The University of Michigan Press, 1938), p. 30.

[2]*Ibid.*, p. 1.

more than one-tenth of total wages.[3] Has the business community neglected to "sell" its own image?

Business leaders may be well aware of this historic hostility, but they often discount it. "We are trying to operate a profitable firm, not win a popularity contest," seems to sum up the businessman's general attitude on the image of business morality. This sort of statement ignores the fact that without society's approval the businessman finds himself working against himself, because he makes up a crucial segment of society. Thus it only makes good sense for the businessman to come to terms with society; he must turn his attention to making himself respectable in his own eyes and in the eyes of those who are dependent upon him.

There are many, both in industry and out, who feel that an excellent place to begin this change in public opinion would be through the development, acceptance, and enforcement of a code of business ethics. And, in the long run, it seems to boil down to a choice—either public or private control to enforce the code. There has always been tension between big industry, with its concern for profit and market control, and government, with its concern for the national interest. This tension has increased as big business has become so large as to be quasi-governmental in its influence and, as recent history testifies, if the business community does not take care of its own problems the government on behalf of society will. While good business morals cannot be legislated, restrictions by law do serve the purpose of establishing guidelines by which outward business conduct can be judged and either sanctioned or condemned. A good example of how far industry will go before accepting social responsibility and establishing controls for its activities is seen today in the field of air and water pollution. And since business has not set up its own controls in this area the government, on behalf of society, will sooner or later be forced to do so.

While there may seem to be a tarnish on business morality, this is not the only reason a code of business ethics is needed. As scientific progress continues, changes in industry will bring with it many additional problems which will affect total society. A prime example of this is automation. Not since the Industrial Revolution has the business community experienced such drastic changes in the approach and scope of the economic

[3]Peter F. Drucker, *The New Society*, (New York, Harper and Row, 1950), p. 88.

process. And, as during the Industrial Revolution, technological progress has again far outstripped sociological advance. If the past couple of decades are any example of what the future holds, the gap between social progress and technological progress can only widen. Already, the businessman concerned with ethics must ask himself what can be done for the worker who is displaced by automation; the railroad fireman who may have lost his job as a result of dieselization; the hardrock miner whose skills are no longer required. Ethics demands that leaders of management as well as labor and government must assume responsibility for relieving the hardships caused by technological advance.

Increase in technology is not the only force at work to complicate the relation of the business community with the rest of society. The rapid increase in population and the shifts in population which are taking place today bring with them social problems that complicate society all the more. To adjust to these problems and maintain any semblance of order in society, more built-in controls will be needed. Because management, workers, consumers, and all of the rest of the human elements of business come from this population, the business community is highly involved in this change and, therefore, should lead in the planning and providing for the problems that will develop out of this change.

Businessmen cannot allow themselves to be guided by the profit motive alone. If they do attempt coldly to maximize their profits they act in an unrealistic manner as well as in an immoral manner. They are first social beings and secondly businessmen. By playing this dual role they are in a better position than anyone to introduce socially acceptable ethical guidelines into the business community.

The need for moral revaluation is recognized by many business leaders. A study made by the *Harvard Business Review* reveals that 71 percent of 1,700 executives polled favored the establishment of codes of ethical practices for their industries.[4] Among these executives there was near unanimous agreement on the idea that a code would help executives in making decisions, although at the same time the majority of them felt that any industry-wide code of ethics would be difficult to enforce. However, only four percent of them wanted a government enforced code of ethics. From this, then, it seems that, until

[4] *Harvard Business Review*, July-August, 1961, p. 6.

the business community desires a code of ethics enough to want to self-enforce it, no code will be forthcoming from business.

One question regarding business morality which is often expressed by students of both economics and religion has to do with the dualism which exists in society matters of religion and economics. R. H. Tawney, a noted English economist, in his book, *Religion and the Rise of Capitalism*, deplores the dualism which regards the secular and the religious aspects of life as independent provinces, governed by different laws, judged by different standards, and answerable to different authorities.[5] His attitude toward the separation of spiritual matters from secular affairs is echoed by a fellow English economist, John Maynard Keynes, who is quoted as saying that modern capitalism is absolutely irreligious, without internal union and without much public spirit.[6] Here are men engaged in the study and projection of economics in which theoretically men act rationally and whose goal is to maximize gain. Yet these leading 20th century economists are deploring the lack of spiritual influence in the economic sector of society. Religion, they feel, is a necessary ingredient in the successful conduct of business. This is a question which should be pondered by business administration students and the business community today.

Writers, analyzing business history, have developed the theory that economic ethics have vacillated throughout time between the Individualistic Ethic and the Social Ethic. Under the Individualistic Ethic, the individual was all-important. The Individualistic Ethic in the business world was compared to Conservative Darwinism in the biological world where "survival of the fittest" meant no mercy was shown to the weaklings. The Individualistic Ethic proposed both a morality and a science of individual selfishness. From total society's point of view, the Social Ethic was an improvement, since the group, not the individual, was the prime consideration. Yet the fallacy of the Social Ethic is that individuals, while being group members, are still individuals and have personality drives that differ from those of the group.

Down through history these two ethics have conflicted. When the excesses of the Individualistic Ethic became too great, there would be a movement toward the Social Ethic

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[5] R. H. Tawney, *Religion and the Rise of Capitalism* (New York, Harcourt, Brace, & World, Inc., 1926), pp. 228-229.

[6] *Ibid.*, p. 229.

until its rules of conformity became too oppressive. But neither ethic completely satisfied the values of society. As one writer states it:

> Neither ethic by itself is adequate to the task; both are morally unspecific; and neither the Individualistic Ethic nor Social Ethic can muster evidence to show it is necessary and sufficient . . .[7]

Thus history has proven that a new ethic is needed. It will be up to the business community to find that ethic if it does not want a government-imposed one.

Political science writer, Golembiewski, suggests the new ethic be based upon Judeao-Christian principles, bringing religious philosophy back into the conduct of business. This ethic would possibly satisfy the question posed by another writer in the field.

> Our economy has been abundantly productive, our standard of living is at an all-time peak, and yet we are tense, frustrated, and insecure people full of hostilities and anxieties. Can it be that our *god of production* has feet of clay? Does industry need a new religion?[8]

With industry as the backbone of our capitalistic society, it seems apparent that measures must be taken to supply this backbone with the moral strength needed for all of society to stand erect to meet the challenges of our times. Each member of the business community should be asked the questions being asked of the University of Montana School of Business Administration students—plus one more: "What are you doing to further the cause of morality in business and society?"

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[7]Robert T. Golembiewski, *Men, Management, and Morality* (New York, McGraw-Hill, 1965), p. 44.

[8]O. A. Ohmann, *Harvard Business Review*, May-June, 1955, p. 2.

Outdoor Recreation and The Private Sector in Montana

L. C. MERRIAM, JR.
Associate Professor of Forestry
University of Montana, Missoula

Note: This paper is adapted from a talk presented by Dr. Merriam at the Outdoor Recreation Seminar, Montana State University, Bozeman, October 19, 1965.

If we think of outdoor recreation as pleasurable leisure activity in any outdoor setting, there are many aspects that directly concern private industry and private land owners. Urban areas offer various forms of privately owned amusement parks, golf clubs, swimming pools, race tracks, ball parks, and so forth. The privately owned areas in the large non-urban regions, particularly here in Montana, are most important, but their role may not be so apparent. This article will discuss several aspects of the private sector role in outdoor recreation in rural Montana: the characteristics of the state, and its attractions; the present and potential recreational users of Montana; some attitudes of Montana people toward recreation and the user; private recreation activities and problems; the challenge to private owners.

Montana, in land area the fourth largest state in the Union, has a population of slightly more than 700,000. The state contains scenic attributes second to none in the United States and attracts recreationists in large numbers from other states.[1] Until lately most of the prime attractions have been in or near the western mountains: parks such as Glacier and Yellowstone, the forest and wilderness areas, and Flathead Lake. Attractions range from forested mountainous wilderness and park land to lakes, river and stream canyons; recently prairie, open badlands, and interesting historic towns and sites have widened the appeal to include the whole state. Most of the major rec-

[1] L. C. Merriam, Jr. and M. B. Price, "Some Considerations in Planning for Outdoor Recreation in Montana," *Montana Business Quarterly*, Vol. 3, No. 2 (Spring 1965), pp. 18-33.

reation areas are on public land, particularly in the mountainous western portion of Montana. Yet there are important private holdings within and around these lands where private investment for outdoor recreation services can make and is making an important contribution. For example, West Yellowstone provides motel, eating, and other facilities (including a new airport on Forest Service special use permit land) for recreationists going in and out of Yellowstone Park.

We find that visitors attracted to Montana enjoy a wide range of outdoor activities: scenic driving, educational visits to parks and historic spots—including old mining towns—hiking, boating, fishing, horseback riding, tote-goting, photography, art, camping, picnicking, hunting, skiing, and just plain outdoor loafing. Public lands and public facilities are available for many of these activities. For others, there are ample private sector opportunities such as development of skiing facilities and restoration and management of mining towns.

The out-of-state user who comes to Montana for the first time probably follows the main-traveled highways heading to Glacier Park or Yellowstone. The first trip to Montana may be a part of a larger trip covering several western states, or it may be to a specific location predetermined by a travel agent or helpful friend. One hopes that the visitor will find what Steinbeck refers to in *Travels With Charley:*

> . . . It seems to me that Montana is a great splash of grandeur. The scale is huge but not overpowering. The land is rich with grass and color, and the mountains are the kind I would create if mountains were ever put on my agenda. Montana seems to me to be what a small boy would think Texas is like from hearing Texans . . .[2]

If the new visitor sees this, he may return again to visit off the road areas, back country, and old mining towns. He will need services provided by private enterprise—motels, good food, and good campgrounds of the sort being developed privately by Kampgrounds of America in Billings. The tourist will want good roads and facilities of similar standard to those in his own state. However, he will settle for less if other amenities are present—friendly people, reliable information, not too many no-trespassing signs, and good food, or places to cook it.

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[2]John Steinbeck, *Travels With Charley in Search of America,* (New York, Viking Press, 1962), p. 142.

Our own people have similar needs when traveling through Montana but they may seek solitude and different opportunities, particularly off the main roads or in the off-season on principal routes. Because they are entitled to in-state hunting licenses and are familiar with seasons and areas they often pursue activities not generally followed by the out-of-state user, such as blue grouse hunting in duck season. Our limited studies in western Montana indicate that the side road attractions and facilities like Rock Creek in Missoula County are used primarily by local Montana people.[3] But the need for privately operated facilities is just as urgent for in-state as for out-of-state travelers.

What can private enterprise do for outdoor recreation? For one thing, the attitudes of people connected with tourist facilities are very important. This summer I did a special land-use study covering five western states for the Bureau of Land Management. It was most gratifying to find that Montana motel operators and service people were probably the friendliest in the five states. In California, where I was raised, the population has risen in 25 years from 7 to 18½ million[4] and the "let's get the tourists' dough" approach of recreation service people has expanded with the population. Some of these 18½ million people will come to Montana for a real vacation. Are we in Montana demonstrating that we welcome them?

How about the "No trespassing—don't bother to ask" signs in parts of the Bitterroot and Madison valleys? Are we perhaps so close to the tremendous scenic backdrop that often we cannot see the wilderness for the access roads? Citizens as well as motel operators owe courtesy to visitors and Montana land owners may not be aware of how their attitudes reflect on our state.

There is also the "universal expert syndrome of recreation land use." Its symptoms are manifested by such expressions as this logically invalid syllogism: "Recreation is primarily hunting and fishing. Everyone here knows a good deal about hunting and fishing. Therefore, everyone here knows a good deal about recreation." This notion leads to oversimplified judgments about recreation activities, land use, and recrea-

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[3]M. B. Price, *User Characteristics and Preferences in Certain Stream-based Campgrounds in Western Montana.* Unpublished Master's thesis, University of Montana, 1965.

[4]Hugo Fisher, "Esthetics and Economics," *Sierra Club Bulletin,* 50:7 (September, 1965), pp. 3-5.

tionists themselves. It takes more than a provincial knowledge of hunting and fishing to make an expert in a recreation business; it takes an insight concerning land attractions, planning ability, strategic location, capital, and human understanding to do a good job, and not all those who go into the business have all these attributes.

What I am trying to say is that outdoor recreation is a highly complex field in which there are very few experts. To get along in this field from the private or public standpoint you must have an understanding of *people*, what they want and why; a knowledge of the land and associated biota, and what the limitations are in its use for recreation and for multi-resource uses. You must understand many diverse types of activity (such as tote-goting or water skiing) and also the political and economic realities of your locality. This means that you would not support, as some have suggested, the idea that the Sun River in the Bob Marshall be dammed. Above all, the successful recreation man must recognize that mere promotion of Montana and money spent on advertising the state does not *necessarily* improve tourism. All the advertising in the world will not satisfy the tourist who finds inadequate facilities. And increasing numbers of users may limit the quality of experience and hurt rather than help Montana's tourist business.

How are private owners and operators helping in Montana outdoor recreation? In the forest owner category we find that the Anaconda Forest Products Division of the Anaconda Company and the St. Regis Company (J. Neils Division) have developed campgrounds and picnic facilities on their western Montana lands.[5] The Northern Pacific Railway Company leases recreation land to four ski area operators and for numerous cabin and hunting sites. In some places where their land is mixed with that of public agencies, such as on the Swan State Forest in Lake County, fishing, hunting, hiking, riding, and other activities are allowed. In the Mission Mountains Primitive Area, the Northern Pacific has agreed to negotiate an exchange of its wilderness lands for more suitable timber sites on national forest land.[6]

Perhaps the best-known private activity in Montana relating

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[5]Merriam and Price, *op. cit.*

[6]S. G. Merryman, "Outdoor Recreation on Private Lands," a talk presented at the Montana Conservation Council meeting, Butte, April 13, 1962.

to recreation land use is dude ranching. This activity dates back to 1898 and memorable operators like Dick Randall of the OTO Ranch near Gardiner, and it still draws people to numerous ranches in Montana.[7] Ranchers are organized through the Dude Ranchers Association, as are many of the 361 licensed Montana outfitters in the Montana Outfitters and Guides Association. Both of these groups provide valuable services to recreationists, often involving trips into public land for scenic, fishing, and hunting purposes. Dick Hickey of the Diamond L Bar Ranch at Lindbergh Lake, Missoula County, provides excellent lodging facilities and horses for guests, and pack trips to the nearby Mission Mountains on the Flathead National Forest; many others could be cited.

Other services provided for visitors include the hotels and lodges within the national parks and boat marinas on Flathead and other lakes. Private franchise campgrounds of Kampgrounds of America now operate in eight locations in Montana with more to come next year.

There are 21 major ski centers in Montana,[8] all privately operated. Some of these operate under special use permit on public lands and others, like Big Mountain in Flathead County, are located partly on private land and partly on public land. The seven Indian reservations in Montana, private lands operated by the Tribal Council with advice from the Bureau of Indian Affairs, provide various types of recreation facilities, including restaurants, cabins, campgrounds and picnic areas, boat marinas, and so on. Private clubs and organizations, such as the Montana Wilderness Association, offer private recreational opportunities (usually on public lands) for their members through walks and pack trips sponsored and organized by the Association.

There are, of course, problems involved in private sector recreation efforts and there may be obligations of the public agencies to private enterprise that are sometimes not recognized. From the standpoint of the landowner providing outdoor recreation services and land use, there are problems of liability, taxation, costs, and fees. In Montana land owners encouraging use of their land for recreation are liable and may

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[7] L. W. Randall, "The Man Who Put the Dude in Dude Ranching," *Montana, The Magazine of Western History*, Summer 1960, pp. 29-41.

[8] Montana Department of Fish and Game, *Statewide Outdoor Recreation Plan* (draft), September, 1965, pp. 24-32.

be sued for damages if people are hurt on their property.[9] From a tax standpoint land classed for recreation use is sometimes assessed at a higher rate than the same land when it is classed for timber production. If the private owner is providing free recreation use and not using the timber, his taxes and recreation costs may be higher than he can stand on a purely good will or public relations basis. Charges for recreation (such as the Land and Water Conservation sticker charge on some federal lands) may help in allowing private owners to recover some costs through similar fees. (In the past many owners felt they could not charge fees for use when similar public facilities nearby were being offered free to the public.)

There are some owners living next to prime public recreation lands or waters who, for reasons best known to themselves or perhaps because of a difficult relationship with public land managers, will not allow public access across their land. In so doing they often put a larger burden on nearby owners for access or encourage destructive trespass across their own lands.

We hear about the possibilities and successes of small farm and forest picnic or campground enterprises in the more populated eastern states—a good example is the forest picnic business in Ohio. The most successful enterprises are usually characterized by large investment, nearness to metropolitan centers, and location in areas of limited competing public land devellopment.[10] In Montana there may be some opportunities for successful operation of units like KOA, but with the expanding development of public recreation land these private units would be most effective as a complement to and not competitive with public development. For example, a private campground including restaurant and grocery facilities built and operated in Lewis and Clark Caverns State Park or nearby could serve as an excellent complement to that popular area. It may be that in the future many private facilities will be built and operated on a lease basis in public areas where private operation could do a better, more efficient, and profitable job; this in turn would release public funds for administrative and educational functions.

Public agencies such as the National Park Service and the U. S. Forest Service have an important role in Montana's econ-

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[9]Merryman, *op. cit.*

[10]D. R. McCurdy and P. M. Mischon, *A Survey of Ohio's Forest Picnic Business*, U. S. Forest Service, Central States Forest Experiment Station, Research Note #37, (July, 1965).

omy because of their extensive land responsibility and control of major recreation opportunities. In some situations they can be competitive with private industry in providing campgrounds or motels where private efforts could do the same job. The uncertainty over what procedure will be followed regarding contracts, franchise fees, and new developments can be discouraging to private capital investment. Perhaps where there is a possibility of a private development serving as well as a public facility, it would be wise for public officials to encourage the private development over public investment. Particularly would this be the case in the rather delicate environment of some park areas where the encouragement of private developments on the fringes (as at West Yellowstone) may save park congestion and allow for the flexibility of offerings dictated by changing visitor tastes that park environment and public development cannot provide. Both the state and federal agencies should begin work on procedures that would help and encourage private investors of this sort.

There is a growing challenge to the private sector in the Montana recreation picture, particularly in the service areas of dude ranches, campgrounds, hotel, and restaurant services. It is important that private recreational operations complement public operations wherever possible, and conversely that public agencies recognize their cooperative role with industry in recreational development and service to the public. The use of fees for recreation service, tax credits, and improved liability laws are all needed to develop the private provision of recreation service. Associations of private operators, wilderness groups, and the like should be encouraged to develop and maintain standards.

The Montana Statewide Recreation Plan developed by the Montana Fish and Game Department can be most helpful in aiding private and public groups—and the general citizen—toward realization of Montana's recreation potential. The cooperation and ideas of all concerned Montanans are needed and will be most important to the plan's success. Hopefully this plan will pinpoint areas of need in the development of private facilities for outdoor recreation. Cooperation of private owner and investor groups, recreationists, and public officials will be most important at this point in bringing proposed projects to reality. State and university help in economic feasibility and environmental studies, local or state subsidies in the form of reduced taxation or land grants, and federal help in site location and planning will also be important.

Finally, in the hope of keeping the visitor feeling the way John Steinbeck does about Montana, it is important to understand the user, to encourage and help him, give him value received, and provide and maintain a *quality* natural environment to which he will return. For we know that Montana is now what both Texas and California may once have been.

A Primer on State and Local Taxation

JOHN H. WICKS
Assistant Professor of Economics
University of Montana, Missoula

Taxes are continually in the public eye. Almost everybody pays them; virtually every session of every state legislature in the country has them under consideration. Montana is no exception in this respect; here, for instance, there is considerable public discussion that property taxes are "too high." Legislative interest in taxes is indicated by a joint resolution of the 1965 Legislature requesting the Montana Legislative Council to conduct a comprehensive study of Montana taxation.

However, public discussion and legislative consideration of taxes are best accomplished when all people concerned are aware of the basic economics of taxes—that is, the effects that various types of taxes may have on people and businesses. For instance, certain taxes—excise and property taxes, for example—are likely to have an effect on what people purchase. It may be that income taxes have some effect on incentives to work. The various taxes cost some people more than others; for example, auto license fees are largely borne by motorists, property taxes by property owners, and so forth.

Public opinion probably tends to be reflected in legislative action in a state. When this opinion is based on economic knowledge, it is more likely to produce effective legislation than when it is based on myths or suppositions. Likewise, with knowledge the voter becomes more capable of evaluating pronouncements on taxation made by candidates for public office. And, of course, economic knowledge is a desirable attribute for those candidates elected.

Thus, the purpose of this article is to outline briefly the economics of taxation as it applies on the state and local levels in the United States. First, it discusses in general terms the three basic components of the economics of taxation: the effects that taxes may have on the economic decisions of individuals and businesses and thus on the economy, ways to determine who bears the burden of taxation, and the costs involved in the administration of and the compliance with tax laws. Then, the article considers each major kind of tax levied on the state and local level in the nation from the viewpoints of its effects on individual and business decisions, distribution of its burden, and its administrative and compliance costs.

Each term peculiar to the field of public finance or taxation is defined as it is used. Terms defined are italicized when introduced. In general, the terms and analysis presented in this article on state and local taxation apply also to taxation by the federal government.

Economic Analysis and Evaluation of Taxation

Functions of State and Local Taxation

On the state and local level, the basic purpose of taxation is simply to raise the funds to finance governmental expenditures.[1] Taxation at the state and local level as well as the federal level distributes the *burden* of governmental economic activity. Burden (as we use it in this article) refers to the reduction in the private purchasing power possessed by different people as a result of taxation.

This burden is not necessarily borne only by the person who is legally obligated to remit a tax to the government. Such a person is said to bear the *impact* of a tax. He may, however, be able to pass part or all of the tax on to someone else. This process is called *shifting*. For example, at least part of the six cents per gallon tax on gasoline in Montana is passed on to the consumer by the seller. Thus, the gasoline dealer bears the impact of the tax, but he is able to shift its burden to the consumer. When individuals who purchase gasoline have no further place to shift the tax, they are said to bear the *incidence* of the tax.

This discussion of tax burden does not necessarily mean that governmental collection of taxes and subsequent expenditure of funds places an "oppressive load" on the economy. The opposite should be the case. To be justified, each dollar spent

[1]While the federal government can create money and engage in continuing deficit finance, the states lack these powers and are thus more limited in the handling of their financing.

on governmental activities should provide more satisfaction to society than would have been provided had the dollar been left in private hands to be spent. What burden does mean is that dollars spent by state and local governments must be obtained from someone. Each dollar's worth of tax incidence borne by the individual cuts down his own private purchasing power by one dollar. He is thus burdened to the extent that he can buy one dollar less worth of goods than he could if he had not been required to pay the tax. However, if society is not at least as well off by spending that dollar governmentally than it would have been if the taxpayer had been left with his dollar to spend, then the collection and expenditure of that tax dollar results in some social loss.

Tax Equity Considerations

Tax burden is one viewpoint from which taxation can be analyzed. Various taxes affect the purchasing power of individuals and groups differently. For instance, the federal personal income tax bears much more heavily on a bachelor who has an income of $10,000 a year than on a man with seven children who has the same income. A cigarette tax bears quite heavily on cigarette smokers, but leaves nonsmokers unaffected.

Taxes usually redistribute purchasing power. The *distribution of income* or purchasing power refers to the amount of spending power possessed by each individual within an economy. A tax which bears more heavily on one individual than another takes more of the spending power from the one than the other, and quite obviously changes the distribution of the spending power. A legislature determines this distribution by using its own "value judgments," and much of the disagreement over the fairness of taxation has to do with how it affects the distributional pattern.

It is almost universally agreed in our society that taxes should be "fair" or equitable. But there is not this agreement about what kind of taxation is fair and what kind is unfair. If one feels that public policy should be decided on the basis of majority rule, then knowledge of public opinions concerning tax fairness accompanied by knowledge of the distribution of tax burden is vital to those who make tax policy. Where there is considerable disagreement about what is fair, those who make policy need definition of the issues involved.

Let us begin with a value judgment that is very generally accepted: namely, "equals" should be treated equally. For example, most people feel that two individuals, each of whom has the same amounts of income, wealth and financial responsibilities, ought to pay equal amounts in income taxes. This sounds simple and is a good working rule, but to determine who is receiving "equal" treatment and who is not is something of a problem. Probably a number of aspects of our existing tax system violates this "equals should be treated equally" viewpoint. Some of the details of this matter will be mentioned later.

Possible Criteria for Taxation

The tax treatment which should be given to people who are not in equal circumstances finds much less widespread agreement. How should people who differ in income, financial responsibility, wealth or amount of consumption be taxed? The two most commonly suggested criteria are benefits received from governmental services—such as education and highway usage—and ability-to-pay—from such disparate sources as salary, "unearned" money from rental property, unrealized capital gains, or the profits from a farm or business. Clearly there are fertile grounds for disagreement.

We can think of taxes as payments for the benefits received by the public for governmental services. However, to base the distribution of tax burden according to the benefits received by any one person is generally impractical. First, it is impossible to measure the benefit obtained by any one individual from most governmental services, because the benefits from most governmental activities are collected by groups rather than individuals. In fact, this receipt of benefit by groups—often all of society—is the very justification for most governmental activity. Society apparently accepts such activities as being desirable. However, schools, prisons, and welfare, for example, obviously would not be provided in the desired quantity or quality if they were not undertaken governmentally. Imagine national defense organized and paid for by individuals. Even if we could measure and apportion benefits received from governmental services, or if we assumed that the benefits occurred to everyone equally, it still would be difficult to use them as the basis for taxation, for a number of low-income people just could not afford their share. Should only three of a man's seven children go to high school because he can afford just this much tax? There are, however, certain existing taxes which are apparently justified on an individual benefit basis. Probably the best example is a motor vehicle user tax.

An alternate to the benefit basis of taxation is taxation based on an individual's over-all ability-to-pay. One obvious problem here is the determination of what measures should be employed to determine ability. The three major bases which can be taxed are income, consumption, and wealth. The arguments for taxing each are taken up in the next section.

Possible Measures of Ability to Pay Taxes

Income is normally described as the amount of money obtained by an individual (plus any increase—minus any decrease in his wealth position) during a period of time, say, in a year. He can spend this income, save it, or use it to pay taxes. Thus defined, income is clearly the only new source from which a person can buy additional goods or services. It is on this basis that a great many people argue that income is the most appropriate measure of ability-to-pay.

Some people feel that the amount of an individual's consumption expenditure provides a better measure than income of his ability to pay taxes. Since consumption represents what a person takes out of the economy, and income measures what he puts in, a person's income adds nothing to his actual material standard of living until he spends it. However, unspent income does add to his financial security and may give him considerable satisfaction.

Others argue that wealth is the best measure of ability-to-pay. The implications of this viewpoint depend on the definition of wealth which is used. Wealth can be called the total of a person's assets less the amount he owes to others. From a broad viewpoint this should include the present total value of his future earning capacity from work. But this definition is not used for tax purposes in the United States because knowledge of the future would obviously be necessary to estimate a person's future earning capacity. The most commonly used definition of *wealth*, or net worth, is the money value of a person's property less the amount he owes to others. A tax on such a base bears more heavily on a person who waits a significant time between receiving and spending income than it does on a person who has the same total amount of income and spends it over a short period of time. For example, a person who receives and spends $5,000 this year for non-durables will pay no property tax on the $5,000; while a person who receives $5,000 this year and waits three years to spend half of it will pay property tax on that $2,500 for the three years—or will if the tax is accurately administered.

Differing possible measures of ability-to-pay achieve different over-all results. Which yardstick is most equitable? This is a value judgment. Even if general agreement on such a value judgment were available, there would still be the problem of whether the tax should be progressive, proportional, or regressive.

Progressivity, Proportionality, and Regressivity

To gear taxation to economic ability-to-pay, the law must determine the proper relationship between the amount of tax and the tax base. If an individual's economic ability increases more rapidly than the tax base, then a progressive tax is probably in order. A person with a yearly income of $20,000 may be able to afford more than twice as much tax as a person with a $10,000 income. When the percentage of a tax increases in a faster progression than the base taxable amount increases, a tax is called *progressive*. Our federal income tax is a progressive tax. For instance, a tax of $10 on a base of $100 and $30 on a base of $200 is a progressive tax. If it is felt that ability to pay a tax increases at the same rate as the base, then a proportional tax is appropriate. With a *proportional* tax, the base and the amount of tax change by the same percentage. For instance, a tax of $10 on a base of $100 and $20 on a base of $200 would be a proportional tax. A *regressive* tax is technically defined as one in which the percentage increases less rapidly than the base, for example, a tax of $10 on a base of $100 and $15 on a base of $200.

These definitions relate the percentage amount of the tax to the *base* of the tax, which is the dollar amount subject to taxation. Such definitions presume that the base of the tax involved is an appropriate measure of economic ability. In practice, however, most people refer to a tax as being progressive, proportional, or regressive with respect to *income* rather than with respect to the actual base of the tax involved. Defined with respect to income rather than the tax base, a progressive tax is one in which the rate increases more rapidly than income as the taxpayer's income increases; a regressive tax does the opposite. A proportional tax increases at the same rate income increases. This latter system of definitions assumes that income, rather than wealth or consumption, is the appropriate measure of ability-to-pay.

Most people appear to feel that the ability to pay taxes increases more than proportionally as income goes up, and therefore that taxes should be progressive with respect to income.[2] However, such reasoning does not specify how progressive taxes should be nor whether income is the most appropriate base for taxation. If we realize that even these two questions are difficult to solve, it is easy to see that taxes which must be related to *base* dollar amounts rather than income are even more difficult to assess. It is possible, although often difficult, to make taxes other than income taxes progressive.

There are two ways of making a tax progressive with respect to the base of the tax. The first is to make the tax rate progressive; that is, to have the rates increase as the base increases. An example of a tax with progressive rates would be one of 10 percent on the first $1,000 of income and 12 percent on the second $1,000. The other method is to exclude some amount from the tax base. For example, assume that $1,000 of a person's expenditures per year was excluded from a two percent sales tax. Thus, the tax on $1,000 of spending per year would be zero, on $2,000 it would be $20, and on $3,000 it would be $40. These amounts of tax constitute zero percent, one percent, and one and one-third percent of the respective tax bases. In other words, the exemption would make the tax somewhat progressive.

Increasing the rate as the base increases will always make an income tax progressive. However, increasing the rate as the base increases may not result in progressiveness with respect to income if the base of the tax in question is not closely related to income, or if it does not tend to increase as rapidly as income. For example, allowing a taxpayer to purchase a certain amount of cigarettes tax free might not make a cigarette tax progressive in terms of income, for the average low-income person spends a much larger percentage of his income on cigarettes than does the average high-income individual.

[2]This viewpoint generally reflects the opinion that the satisfaction received by a high-income person from his last dollar of income is less than the satisfaction a lower income person receives from the last dollar of his income. This opinion has often affected tax policy.

Also it is almost impossible for a state to apply progressive rates to taxes on consumption, for it is very difficult to determine who spends how much for what.

The preceding discussion does not imply that unlimited progression is desirable. Neither does it mean that every tax within a system must necessarily be progressive for total taxation to be progressive, especially if the revenues collected from the nonprogressive taxes are comparatively low. For example, (see Table 1) a tax system consisting of an income tax which

Table 1

A HYPOTHETICAL PROGRESSIVE TAX SYSTEM WHICH CONTAINS A REGRESSIVE TAX

Income	Income Tax	Property Tax	Total Taxes	Total Taxes as a Percent of Income
\$1,000	\$100	\$50	\$150	15%
2,000	350	80	430	21.5%

averaged \$100 for families with \$1,000 yearly income, and \$350 for families with \$2,000 yearly income, and a property tax averaging \$50 and \$80 respectively for families with these incomes could still be called progressive. If the measure of economic ability is based on income, the property tax is regressive, for it taxes five percent of a \$1,000 yearly income but only four percent of a \$2,000 income. Nevertheless, the total tax system would be progressive, for the total tax liability of an average \$1,000 income family would be 15 percent of income while it would be 21.5 percent for a family with \$2,000 in earnings.

Tax Equity in Consumption and Employment

This discussion has described some methods of gearing of taxation to differences in ability-to-pay. However, there are also a number of taxes which bear upon different people differently, but do not reflect variances in ability-to-pay. In fact, the result may be the unequal treatment of equals. Some taxes may discriminate against the purchase of particular products or against certain types of employment.

A tax on the purchase of certain commodities is called a *selective excise* tax. Any such excise tax or system of excise taxes which applies to the purchase of some, but not all, commodities tends to penalize those consumers who want to purchase the taxed commodities. Obviously, they pay a larger amount of tax in proportion to their total consumption expenditures than those people who happen to prefer to spend a relatively larger portion of their income on untaxed items. Many people, including economists, feel that penalizing those who prefer taxed items is unfair, unless there is something bad about the taxed item. To many people, alcoholic beverages are such a commodity. It is often argued that the purchase of certain items is a good measure of ability-to-pay. However, in our society there are very few items which are purchased only by the wealthy, or which are not purchased by some poor people.

Similarly, any tax which imposes a burden on the production of a particular item tends to penalize both the purchasers of that item and those whose livelihood depends on the production of it. For example, a tax on the gross receipts of companies producing phonograph records would result in a higher tax burden on the production of this product than most other commodities. Undoubtedly, at least part of this tax would be shifted on to consumers in the form of higher record prices; thus people who happen to purchase greater than average amounts of records would be penalized. Furthermore, higher prices for records would probably mean fewer purchases. As a result, not only the income of stockholders in recording companies but the income of people working in the recording industry would quite likely be reduced.

Taxes affecting certain types of occupations more heavily than others may also be criticized from an equity viewpoint. The record keeping costs connected with a number of taxes probably affect those who are self-employed much more seriously than other taxpayers, for example; and in some occupations certain costs connected with making a living may not be allowed as deductions from federal income taxation. This is often true in the professions where a high standard of dress and living is necessary to attract clientele, but is not a deductible expense.

While progressivity, regressivity and proportional taxation are important criteria to those paying taxes, tax lawmakers have other vital factors to consider, especially the effects of taxes on people's economic behavior and the administrative and compliance costs of taxes.

Effects on Economic Behavior

The second general viewpoint from which taxation can be meaningfully analyzed is the effect that it may have on economic behavior. A tax may seriously alter consumption patterns, the availability of various types of productive resources, and/or the methods of production used by business firms. Under normal circumstances, economists accept the patterns of consumption and production provided by the price system under free competition as approximating the optimum. Any alteration of these patterns can be thought of as a deviation from the optimum situation. In the following paragraphs, we will analyze these deviations more specifically.

With most goods, the quantity purchased varies inversely with their prices, although this relationship is stronger for some goods than others. Taxes which apply to certain items but not others tend to raise the price of the taxed items higher than the untaxed; and consumers may begin to substitute untaxed items for the taxed. For instance, a selective excise tax which raises the price of photographic film is likely to lead a potential buyer to reduce the amount of film he buys and use the money for some other item, such as picture post cards, a new coat, or a ski trip. Thus, taxation may cause an artificial distortion of consumption and therefore production away from taxed items in favor of nontaxed ones. Economists generally agree that in a free enterprise economy, the absence of such restrictions will result in the production of those goods and services in those quantities which will provide the greatest possible amount of satisfaction to consumers. Therefore alteration of consumption and production patterns as a result of taxation can be assumed to reduce total consumer satisfaction.

The incentives as well as the consumption patterns of individuals may be influenced by taxation. A tax might influence a person to work less, for taxes reduce spending power, but may not affect the enjoyment one may receive from leisure. On the other hand, if a given standard of living were important to him a higher tax might make him work longer; he would have to work longer to be able to purchase a given amount of goods. If certain types of employment were taxed more heavily than others, a person might be influenced to work in less heavily taxed occupations. For instance, if self-employed people were not allowed to deduct all legitimate expenses from their income tax base, some people might be influenced to work for someone else rather than go into business for themselves. The same could be the case with respect to various types of business enterprise. In the same way a tax may encourage or discourage the taking of risks. For instance, the federal personal income tax gives favorable treatment to capital gains income, a type of income that often occurs as a result of risky investment. Thus risky investments likely to result in capital gains are encouraged, as are investments in oil industries where the depletion allowance provides a means of earning tax-free income.

Taxation may also affect production methods used by business firms. Heavily taxed methods are likely to be discouraged. For instance, if the property taxes on capital goods and inventories are very high, but payroll taxes are relatively low, the use of more workers and less capital equipment is likely to be favored. Since business firms wish to be profitable, it can be expected that they would normally use the most efficient production methods in the absence of taxation. Thus, any influencing of the method of production by taxation probably reduces over-all efficiency.

These possible effects of taxation on consumption patterns, incentives, or production methods are often referred to as the *allocative* aspects of taxation, for they influence allocation of resources in production. Allocation of resources refers to the relative quantities of labor, natural resources and capital goods used to produce various different items in an economy. Thus it is plain that tax laws must take this factor into account if they are to promote, rather than hinder, effective operation of the economy.

Administrative and Compliance Costs

The remaining major aspect of taxation to be considered is its administrative and compliance costs. *Administrative costs* are those costs borne by governments to levy and collect taxes. They vary from tax to tax, and some taxes are not feasible because of the administrative costs they would entail. For example, state taxation of intangible personal property (such as stocks and bonds) is very expensive to administer with any degree of accuracy. In fact, it may be impossible for a state or local government to do without the use of complex federal law enforcement facilities to provide certain information. Even then it would be very costly. On the other hand, the administration of a cigarette tax levied at the wholesale level is quite economical.

Compliance costs are those costs, both in time and money, borne by taxpayers to keep necessary records for taxation and actually to remit taxes to government. These costs are quite significant, for instance, for many personal income taxpayers. Property tax compliance costs are generally low. Since both of these costs involve the use of productive resources, mainly human labor (whether done by paid tax accountants or the time and energies of individual taxpayers), they could be thought of as allocative effects of taxation, but normally they are considered separately.

Adequate expenditures for administration are necessary if evasion is to be prevented. Evasion is undesirable both from a fairness viewpoint and because it causes loss of governmental revenue. However, it is generally accepted that administration and compliance costs should be kept as low as compatible with good administration, because such costs produce no corresponding happiness to society. Tax collection is seldom thought of as a beneficial governmental service, nor is anyone made happy when it takes him a long time to fill out his personal income tax return.

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As we have pointed out, the three basic viewpoints from which taxation can be analyzed are equity considerations, effects on economic behavior, and administrative and compliance costs. Equity refers to the fairness with which the tax burden is distributed. Changes in economic behavior (sometimes called just economic effects) refer to the effects that taxation may have on consumption patterns, availability of various types of productive resources, and methods of production. Administrative and compliance costs are those costs borne by governments and individuals respectively to collect and pay taxes.

Review of Major Taxes Levied in the United States

The major taxes collected by state and local governments in the United States are property, personal income, corporate income, general retail sales, selective excise, highway user taxes, and death duties. This section briefly reviews the nature of each of these taxes in terms of equity, economic effects, and administration and compliance costs.

Property Taxation

Property taxation was at one time the source of most state and local governmental revenue, and still provides about 90 percent of the revenues of local governments. While administrative costs of property taxation are not especially high, the actual administration of the tax usually produces considerable inequity because of difficulty in accurately assessing the taxable value of property. The base of this tax is the assessed value of property, which is normally supposed to be equal or proportional to current actual market value.[3] However, different types of property and different parcels of the same type of property are often assessed at different percentages of their actual value. For example, if two adjacent houses have the same current market value, but one is assessed at 100 percent and the other at only 50 percent, then the owner of the former will pay twice as much tax as the owner of the latter even though the houses are worth exactly the same.

From an equity viewpoint, there is also a question whether even accurately assessed property provides a close measure of ability-to-pay. The value of a person's property may be a measure of the benefit he receives from certain local governmental services, such as police and fire protection, but such services are only a small portion of the total. Financing the remaining services with property levies tends to distribute tax burden in a capricious manner. The amount of a person's property is often not closely related to his income. A person with six children is likely to have a fairly large house, but may not have a large income. Furthermore, the house may be highly mortgaged. Even so the property tax would apply to the full value of the home. On the other hand a person with a large income—and resulting economic ability—may spend most of it for services and other non-durables and thus pay little property tax.

[3]Recent court decisions in some states have defended the proposition that assessed value should equal market value. In other states, the judicial rule is that assessments need be only the same percentage of true value for various items and parcels of property. In Montana, the actual property tax base is a percentage of assessed valuation. This percentage varies according to type of property.

From an economic effects viewpoint, property taxation probably tends to discourage the purchase of durables as compared with nondurables, since nondurables are not included within the tax base, whereas durables, such as automobiles and houses, are. Thus a property tax makes durables relatively more expensive as compared with other goods. The same type of situation holds true with those methods requiring large amounts of capital investment, called capital-intensive production methods. Property taxation does not apply to the use of labor, whereas it does apply to buildings, machinery, and inventories. Therefore, production methods using relatively large quantities of taxed items become more expensive and are discouraged as a result of the property tax. Taxation of land itself, however, may encourage land use and affect the nature of its use.

In order to comply with the laws of property taxation, a taxpayer normally needs only to pay the bill submitted to him by the county treasurer. Only when a person desires to appeal the valuation of his property for tax purposes is compliance likely to take much time or money. Therefore, compliance costs of property taxation may be said to be low.

Income Taxation

Since the base of the personal income tax is each individual's yearly net, or taxable, income, it is easy to make the tax progressive with respect to income. This can be done by the use of exemptions or progressive rates. For example, the first $1,000 of income may be exempted; or, alternatively, a rate of 10 percent on the first $1,000 of income and 15 percent on the second $1,000 may be levied; still a third possibility is to employ both devices simultaneously. Since it is quite generally agreed that economic ability to pay taxes increases progressively as individual income goes up, the ease with which the tax can be made progressive is probably one reason it is so widely accepted as a tax. Certain provisions found in the federal and some state income taxes, such as the favorable treatment given to capital gains and the depletion allowance structure, do benefit some individuals much more than others and, therefore, are often questioned from a fairness or equity viewpoint. The tax may have some effect on incentives to work. There may be a number of other changes to economic behavior resulting from the tax. For example, the fact that the federal government does not tax the interest on state and local government bonds lowers the interest rate these governments must pay and may consequently encourage borrowing by them. The deductibility of business expenses may encourage the consumption of high-priced restaurant meals. Income tax compliance costs are quite high for business firms which must withhold taxes and submit them and information to the government, and for individuals who must compute and report their income. In addition, administration of certain aspects of the tax is difficult.

It is difficult to analyze the equity of the corporation income tax since accurate information on certain factors is not yet available to economists. For example, we do not know with certainty if the corporate tax is shifted on to consumers in the form of higher prices. If the tax is shifted, it becomes a kind of sales tax which applies more heavily to some commodities than others, because corporate profits as a percentage of sales are higher in some industries than others. Such factors could mean that the tax tends to discriminate against consumption preferences and alter consumption patterns. If the tax is not shifted, its burden falls on those who were stockholders at the time the tax was imposed or increased. An argument made for the corporate income tax on the state level is that corporations should pay something for their state-granted privilege for existing as a legal entity, and income is the best measure of the benefit their franchise gives them. The tax *may* reduce business investment, both by reducing the rate of return after tax on a possible investment project and by reducing the amount of funds available for corporate retained earnings; but this again is a factor almost impossible to analyze (except by a crystal ball).

Sales, Excise, and Motor Vehicle User Taxation

A general sales tax is an excise tax levied at a uniform rate on the sale of all or most commodities or services sold at the retail level. Normally, such a tax is somewhat regressive because low-income families, on the average, spend a higher *percentage* of their income for consumption goods sold at retail than do high-income families. Granting each family a certain amount of tax-free expenditure or exempting food from taxation, or both, can eliminate this regressivity. Exempting food from taxation tends to eliminate regressivity because low-income families spend a much larger percentage of their income on food than do high-income families, but this exemption can be held to favor food producers to the detriment of other industries and connoisseurs of fine food as compared with other people. Subjecting things purchased by business firms to a sales tax could encourage the firms to utilize production methods using small amounts of taxed items, for example capital goods, and perhaps to substitute additional labor in their place. The compliance cost of a sales tax to retailers amounts to at least several percent of the amount of the tax, and unless retailers can completely shift the tax to consumers, it will be an inequitable burden to them. The more things included in the base of such a tax, the lower its administrative and compliance costs are likely to be.

Selective excise taxes are levies on the sale of particular commodities or services. There are two distinct types of them used on the state level, sumptuary taxes and so-called luxury taxes. (Some economists consider motor vehicle user taxes also to be excises. However, they are probably more meaningfully considered as a separate type of tax.) *Sumptuary excises* are taxes on goods presumed to be socially harmful. Liquor taxation is probably the best example. The consumption of liquor provides costs to society which are not borne either by the sellers or the producers—for instance, additional law enforcement costs. The major argument for the tax is that it compensates society for these costs; and in addition, the tax might lower the consumption of liquor and therefore the costs. *Luxury excises* are taxes on consumer goods such as furs, perfumes, or imported food items which only wealthy people are presumed to be able to buy. The trouble is that there are not very many such goods, and sometimes even poor people buy them. Furthermore, the tax penalizes those who prefer the taxed commodities or who work in the industries producing them. When a tax raises the price of certain items, it tends to distort consumption patterns by discouraging the buying of one type of goods as opposed to other commodities.

Death Duties and Other Taxation

Death duties include *estate taxes,* which are levies on the net worth of the deceased, *inheritance taxes,* which are levies on the amount received by those receiving the bequests, and *gift taxes,* which attempt to eliminate tax evasion by people who give their wealth away before death. The most often stated arguments for such taxation are that death bequests improve the financial position of the beneficiaries and that taxation of such bequests helps to break up large accumulations of wealth. However, in some instances a death bequest represents no increase in the economic well-being of the donee, as in the case of a widow—nor do these taxes take account of the economic situation of the beneficiary. (Paupers are taxed the same as legatees or inheritors with a million dollars a year of other income). Death duties do not have an apparent major impact on economic behavior, although they may encourage such things as the purchase of additional life insurance or the keeping of a family-held business in more liquid form than would otherwise be the case. And they do, certainly, encourage the use of skilled lawyers to write wills minimizing the amount of liability, thus contributing significantly to the compliance cost of the tax.

The foregoing are the major state and local taxes found in the United States. There are others. For example, *license fees* are generally charges for a governmentally granted privilege or to cover the cost of regulation of the activity involved. *Severance taxes* are levied according to the amount of exhaustible mineral resources extracted from nature. The argument made for severance taxes is that mineral extraction reduces the natural wealth of a state, and therefore the public ought to be compensated for this reduction. A *gross receipts tax* is a tax on the gross sales of business firms. Such a tax is not closely related to ability-to-pay, and strongly favors *vertical integration* of firms. Vertical integration refers to the ownership of a number of different stages in the production process by one firm—for instance, manufacturing, distribution, and retailing. In a vertically integrated firm, the sales from the manufacturer to the wholesaler, and the wholesaler to the retailer would be eliminated, and thus the tax liability would be reduced. A *value-added tax* is a tax on the difference between the sales of a firm and the amounts that this firm paid to other firms. That is, if a Montana firm produced automobile tires and had a monopoly on tire sales in this state, then the results of a value-added tax on this firm would be approximately the same as a retail sales tax. However, if the products of other firms competed with this firm, the tax would erode the competitive condition of the taxed firm and bear little relation to ability-to-pay.

* * *

The above tax-by-tax discussion is only a brief summary of currently available facts and analysis. However, there is also a number of questions concerning taxation yet unanswered by economists which should probably be mentioned. We lack *empirical data*—that is, actual facts—concerning the extent of tax shifting, the degree of various economic effects of taxes, and the compliance costs of particular taxes. Earlier we stated that each tax may be evaluated from the viewpoints of equity, economic effects, and administrative and compliance costs. These characteristics are often interrelated in ways that cause problems. A tax which may be desirable from one viewpoint may be objectionable from another. For example, an income basis of taxation may be deemed to be quite fair to the taxpayer, but it may have some undesirable over-all economic characteristics and be somewhat hard to comply with. In evaluating a tax, all such factors should be weighed, but the degree of weight is an unanswered question; indeed, it is the value judgment that produces the best taxation legislation.

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Vol. 4, No. 1, Winter 1966

The *Montana Business Quarterly* is published by the Bureau of Business and Economic Research, University of Montana, Missoula, Montana, 59801. Yearly subscription, $4.00; $7.00 for two years; $10.00 for three years; single issues, $1.00.